DOCUMENT RESUME

ED 360 064 PS 021 549

AUTHOR Gifford, Jean; Cahir, Pam
TITLE Child Care Funding Re-Assessed: Operational Subsidies, Fee Relief and Taxation Issues.
INSTITUTION Australian Early Childhood Association, Inc., Watson.; National Association of Community Based Children's Services, Canberra (Australia).
PUB DATE Mar 92
NOTE 68p.
AVAILABLE FROM Australian Early Childhood Association, Inc., P.O. Box 105, Watson, Australian Capital Territory 2602, Australia ($15 Australian).
PUB TYPE Reports - Descriptive (141)

EDRS PRICE MF01/PC03 Plus Postage.
DESCRIPTORS *Day Care; Day Care Centers; Early Childhood Education; *Federal Aid; Foreign Countries; *Operating Expenses; Quality Control; *Resource Allocation; Taxes
IDENTIFIERS *Australia; Child Care Costs; Child Care Needs; *Government Subsidies; Services for Families with Child Prog (Australia); Special Needs Children

ABSTRACT

This paper examines issues raised in an earlier paper prepared by the Australian government, viewed from the perspective of the children's services field. The government paper discussed fee relief and operational subsidies, and suggested five possible funding packages. Part 1 of the paper considers operational subsidies in child care. This part outlines the history of the use of operational subsidies, and of funding provisions of the Child Care Act and within the Services for Families with Children Program (SFCF); reviews proposed changes to child care funding policies; and examines likely consequences of the proposed changes. Parts 2 through 7 discuss: (1) funding of services for children with special needs; (2) fee relief; (3) child care not related to parents' work situation; (4) tax issues; (5) reforming SFCP; and (6) recommendations on child care by the National Association of Community Based Children's Services and the Australian Early Childhood Association. Descriptions of available operational subsidies and fee relief are attached. (MM)

****
* Reproductions supplied by EDRS are the best that can be made *
* from the original document. *
****

U.S. DEPARTMENT OF EDUCATION
Office of Educational Research and Improvement
EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC)
☐ This document has been reproduced as received from the person or organization originating it.
☒ Minor changes have been made to improve reproduction quality.
• Points of view or opinions stated in this document do not necessarily represent official OERI position or policy.

ED360064

CHILD CARE FUNDING RE-ASSESSED:

OPERATIONAL SUBSIDIES, FEE RELIEF AND TAXATION ISSUES

by

Jean Gifford

A COLLABORATIVE PROJECT BETWEEN
THE AUSTRALIAN EARLY CHILDHOOD ASSOCIATION
and
THE NATIONAL ASSOCIATION
OF COMMUNITY BASED CHILDREN'S SERVICES

MARCH 1992

PERMISSION TO REPRODUCE THIS MATERIAL HAS BEEN GRANTED BY
Pam Cahir

TO THE EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC).

PS 021549

BEST COPY AVAILABLE

TABLE OF CONTENTS

	Page
Introduction	1
Child care in Australia: The problem	2
Operational subsidies under review	3
Re-thinking the two-tiered fee relief proposal	3
New pressure to make child care fees tax deductible	3
The Government's issues paper	4
The purpose of this paper	4
PART I: OPERATIONAL SUBSIDES RE-CONSIDERED	5
Government expenditure blow-out	6
Original subsidy provisions	8
Problems with original subsidies	8
Moves to re-direct operational subsidies to fee relief	9
Putting the 'lid' on quality	11
The fight to keep the CSP	12
The new 'integrated' Children's Services Program	13
Peter Staples' challenge to the field	14
The 'level playing field' position adopted in the Government's Feburary issues paper	15
The continuing struggle between clashing ideologies within Government	16
Why we believe that 'equal treatment' means ultimate destruction of the SFCP	17
Operational subsidies, service quality and community infrastructure	18
How much can we afford?	21
Without operational subsidies, how many community-based sponsors will continue to run child care services?	21
Unpacking the notion of a 'level playing field'	22
The operational subsidy and quality	23
Social justice and equity issues in the new SFCP	24
The Accreditation Council and quality assurance	24
Shifting the balance of SFCP funding back towards operational subsidies	25
PART II: TARGETING SPECIAL NEEDS	26
Changes to special needs funding	27
SUPS Grants	27
Funding package options relating to special needs	28
PART III: FEE RELIEF	28
Changes in fee relief	29
The introduction of fee relief ceilings and the emergence of gap fees	29

The extension of fee relief to commercial centres 29
The 1991-92 changes to fee relief 30
Improving fee relief provisions 30

PART IV: THE SFCP AND NON WORK-RELATED CARE 31
The need for Occasional Care services 33
Balancing the need for work-related and non work-related care 33
Creating a unified system of funding an important goal 34

PART V: TAX ISSUES 37

PART VI: REFORMING THE SERVICES FOR FAMILIES WITH CHILDREN PROGRAM (SFCP) 37

PART VII: AECA, NACBCS & NFDCCA AGREE ON THE WAY FORWARD 39

References 41

ATTACHMENT I: OPERATIONAL SUBSIDIES 46
Centre-based long day care 46
Family Day Care 46
Outside School Hours Care 47
Occasional Care 48

ATTACHMENT II: FEE RELIEF 49
Centre-based long day care 49
Family Day Care 50
Outside School Hours Care 50
Occasional Care 51

INTRODUCTION

> Over the past 100 years, the role and importance of child care has changed dramatically.
>
> In the late 1800s, day nurseries ...were created as charitable services for the children of domestic workers. During World War II, when women began working outside the home in unprecedented numbers, the number of day nurseries increased sharply. Later, as family patterns and social and economic conditions changed, child care was seen as a way to promote social and economic equality for women. And over the past decade we've become more aware of how child care can promote healthy child development.
>
> Today, child care is recognised as being critical to the economic and social well-being of society as a whole. It is evolving from a welfare service to an essential public service. In the past decade ...there has been a significant expansion of child care services.
>
> While the current approach provides high quality care, it also has its limitations: demand outstrips supply; costs are rising; affordability is becoming more difficult; programs are too dependent on fee subsidies; and in some communities there are not enough services, in others, not enough of the right kind.
>
> It is now time to move forward with the next step: child care reform.

This could be a description of child care in Australia, but is actually an account of child care issues confronting a Canadian province. The words are taken from the introduction to a public consultation paper, Setting the Stage: Child Care Reform in Ontario, prepared by the Ontario Ministry of Community and Social Services (1992:1).

The discussion paper is interesting for a number of reasons. There are striking similarities between the child care issues confronting the Ontario government and the issues we face: supply, affordability, quality, and suitability. As here, the Government in Ontario is undertaking a major review of child care funding.

What is disturbing is that while Australia is poised to dismantle a children's services program based on government payment of operational subsidies to non-profit community organisations in favour of a 'level playing field' approach in which commercial interests will receive equal treatment, the Ontario Ministry is arguing

strongly for the creation of a system similar to the one we began with, a system based on community-run, nonprofit child care in which the main funding vehicle is across-the-board operational subsidies rather than fee relief. Why? What can we learn from the history of our Services for Families with Children Program (SFCP) and from the arguments of other governments about the funding arrangements most likely to support the kind of child care services we will need if we are to support and complement the role of families rearing their children and in preparing the next generation of citizens for effective living in the 21st century?

Child Care in Australia : The Problem

Access to affordable, quality child care has been an issue of growing concern in Australia over the last few years. Child care is now widely recognised to be central to national economic, employment, training and social justice strategies. The Commonwealth's current involvement in child care funding is clearly perceived in these terms (Staples, 1991). Women are now considered to have a central role to play in the economy (Bryson, 1991), and, despite substantial improvements in the number of formal child care places available, lack of affordable child care is still reported to be one of the main barriers to women's participation in employment and training (House of Representatives Standing Committee on Legal and Constitutional Affairs, 1991). Australia's ratifying of the International Labour Organisation's (ILO) Convention 156 concerning equal opportunities and equal treatment for male and female workers with family responsibilities has begun to push child care out of the smaller arena of women's issues into mainstream industrial and legal spheres in ways which have not yet been fully appreciated.

Unlike many other countries, Australia responded early to the changing patterns of workforce participation of mothers of young children common to most Western industrialised countries by enacting legislation which provided a national, co-ordinated approach to the newly recognised and growing need for child care. The Child Care Act of 1972 has given us a standard of child care which is the envy of much of the rest of the world.

The SFCP (formerly CSP) is now twenty years old. The Commonwealth government entered the child care field in 1972 because there were not enough child care places, and the few existing places were of doubtful quality. The Child Care Act of 1972 had the express purpose of improving the availability of child care, lifting its quality, and ensuring that the resulting care was within the price range of average families.

Despite much progress, these three interrelated problems of quality, affordability and accessibility of child care places remain. The number of funded places has increased enormously since the Child Care Act was enacted in 1972, but so has demand. The expansion of the Program has occurred at the expense of per place funding, making it more difficult for funded services to maintain quality, while changes to subsidy

arrangements over the life of the Program have left the affordability problem unsolved for many families.

A fourth problem, suitability, is tied to the questions, who is the provision for, and what type of services do they need? As this paper will show, the Commonwealth program of children's services has progressively been narrowed in focus to one designed primarily to meet the needs of working families at the expense of the needs of other families or children generally.

Operational Subsidies Under Review

Since its inception the SFCP has involved three types of subsidy: operational subsidies intended to help meet the cost of running the service, special needs or fee relief subsidies intended to give additional access to specific target groups, and capital grants. A fourth type of grant, for supplementary services, was introduced later.

Developed for a different time and context, the continued role of one of these, the operational subsidy, is under serious review. A decision was nearly reached to axe operational subsidies in the 1991-92 budget (Walsh, 1991). Peter Staples, in addressing the Triennial Conference of the Australian Early Childhood Association in Adelaide September 1991, challenged the children's services field to help Government resolve the question of what purpose the operational subsidy serves in the child care program as it is now constituted. He made it clear that a definite decision regarding operational subsidies had to be reached before other affordability
issues could be resolved, as many are arguing that the money involved could be better spent on improving fee relief arrangements.

Re-Thinking the Two-Tiered Fee Relief Proposal

A 1991-92 budget decision to substantially revise fee relief subsidies by introducing two levels (tiers) of fee relief within single services for work and non-work related care was heavily criticised and has been deferred.

Fee relief is now being reviewed along with of operational subsidies. At the heart of the issue here is the question, how does the Government adequately balance its need for child care for workers against the needs of all families for a range of children's services?

New Pressure to Make Child Care Fees Tax Deductible

Meanwhile, calls for tax deductibility of child care expenses have increased with the release of a substantial submission from the Taxation Institute of Australia (1991)

arguing for such a change, and the likely adoption of a tax deductibility policy by the Opposition parties.

The Government's Issues Paper

The Commonwealth Government has prepared an issues paper on fee relief and operational subsidies (DHH & CS, 1992) in which five possible funding 'packages' are suggested, most of which redirect operational subsidies towards more targeted use. The public was invited to comment on the issues raised in the paper, as well as on the suggested solutions. A series of public meetings were held during March, and written submissions are sought by 10 April 1992.

The Purpose of This Paper

This paper is intended as a discussion paper in which all of these issues are examined from the perspective of the children's services field in the interests of assisting in the development of a system of early childhood services appropriate to the needs of children, their families and the wider society, in addition to our national economic wellbeing as we move into the 21st century.

An outline of the history of the funding provisions within the SFCP, and the SFCP's changing role in meeting non-work related needs, is provided as background. The likely consequences of the proposed changes are examined, and AECA (and NACBCS) responses to the Government's issues paper are included to assist others in thinking through their own positions.

The paper is a compilation of two earlier papers, a background paper and a discussion paper, "Child Care Funding Re-Assessed: Operational Subsidies, Fee Relief and Taxation Issues Discussion Package: Background Paper and Discussion Paper", issued for comment in February 1992 by the Australian Early Childhood Association (AECA) and the National Association of Community Based Children's Services (NACBCS) (Gifford, 1992), and a wide range of responses to the two papers.

Whereas the previous papers attempted to examine the issues more or less outside the current context of Government policy directions in order to help the field clarify its own thinking about the preferred future role of policy instruments like operational subsidies and fee relief, the present paper places these issues more clearly in the context of what is understood about the Government's own policy direction.

The field needs to understand where Government sits philosophically and practically. Equally, though, we need to determine our own vision of the shape of children's services in the future, that is, clearly define our long term goal for the program. Only

then can choices be made among options which are likely to take us closer to, rather than further from, the long term goal.

PART I: OPERATIONAL SUBSIDIES RE-CONSIDERED

Operational subsidies are available to those community-based nonprofit children's services which have been specifically approved for funding as part of a Commonwealth budget process. Once a new service is approved, operational subsidies become recurrent expenditure. The number of new services approved for funding has always been determined by the size of expenditure Governments have been prepared to devote to child care and other family services, rather than any finite assessment of total need.

In Family Day Care (FDC), operational subsidies, currently paid at the rate of $16.15 per child per week, along with a loading of $4.60 for part-timers, pay for the co-ordinating units (though many schemes have resorted to an extra administrative levy to supplement the operational subsidy). Apart from the levy, parents pay carers for the cost of care, while Government pays for the structures which allow FDC schemes to support good quality care through screening, training, visiting, resourcing and supporting carers; to provide placement, backup and support services for parents; and to maintain effective linkages with other local services and programs.

In Long Day Centre-based Care (LDC), operational subsidies help to underwrite centre costs. Currently amounting to $21 and $14.10 per child per week (for children under and over three years of age respectively), the subsidy effectively reduces fees for all parents using the funded service by an average of around $18.

Operational subsidies in Outside School Hours Care (OSHC) help to underwrite program costs, but are also important in helping programs reduce fees for some families, as the fee relief system in OSHC is less generous than the one available to LDC and FDC. They are paid at the rate of 53 cents per hour per child for programs with 30 or fewer children, and 46 cents per hour per each child over 30.

In Occasional Child Care (OCC), operational subsidies are $19.60 per approved place per week. Operational subsidies in OCC are used to help keep costs within a range that families on single incomes can afford in a type of service which is inherently expensive because of the extra administration and high vacancy rates associated with casual bookings.

Commercial child care interests have long argued that the operational subsidy is iniquitous, leaving their services at a serious disadvantage in relation to neighbouring funded non-profit services. With the inclusion of employer sponsored child care under the 'industry initiative' in 1988 and the extension of fee relief to commercial and

previously unfunded non-profit services in 1991, the pressure to re-think operational subsidies has increased substantially.

Table 1 shows the present breakdown in places by service type.

Table 1: Types of services currently receiving Commonwealth fee relief subsidies

	No of places	No of services
Plus Operational Subsidy*		
Community LDC	39 674	984
FDC	43 078	342
OSHC	46 719	1397
Occasional Care	5 163	373
Fee Relief Only#		
Private LDC	41 313	1077
Not for Profit	5 770	151

LDC = long day care
FDC = Family Day Care
OSHC = Outside Schools Hours Care (excluding Vacation Care)

* Data as at 31 Dec 1991
\# Data as at 10 March 1992

Information for this table supplied by the Department of Health, Housing and Community Services.

Government Expenditure Blow-Out

The extent to which Government expenditure on child care has mushroomed since offering fee relief to all long day care centres can be seen in Table 2.

Table 2: Commonwealth expenditure on children's services

	1989-90 Actual ($'000)	1990-91 Actual ($'000)	1991-92 Estimate ($'000)
Fee relief	96,745	143,073	223,089
Operational subsidy	78,052	65,215	89,754
Other (a)	40,239	35,349	57,420
Total	215,036	243,637	370,263

(a) Includes capital expenditure, special and supplementary service grants, Program Support, Family Resource Centres, Youth Activity Services and Vacation Care.

Source: Issues paper (DHH & CS, 1992:27)

It is important to register that expenditure on fee relief alone this financial year is expected to be larger than total expenditure, including operational subsidies and capital grants, in 1989-90.

The 'blow out' in the fee relief budget was unexpected, and was apparently due to:

- greater take-up of fee relief by previously unfunded centres than had been estimated (an extra 3,700 places);
- higher than expected average fee relief costs;
- unexpected increases in FDC use, and faster increases in FDC fee levels than predicted;
- the impact of the recession on family incomes.

(DHH & CS, 1991).

Slippages in the program of expansion of operationally subsidised places approved under the 1988 National Child Care Strategy, and a change in payment time-tables have helped balance the books so far, but clearly the costs of the initiative to make fee relief generally available have put pressure on Government to find a source of funds to pay for it in the future. A significant problem for Government is that unlike operational subsidies (and fee relief before 1991), fee relief now is an uncapped expenditure item - any LDC centre meeting eligibility criteria must be admitted to the program.

This is not the first time that Government has looked at operational subsidies. The continuing role of operational subsidies within the SFCP was the subject of discussion within Government at least as early as 1979 (Office of Child Care, 1981). At

different times various voices within the Fraser and Hawke Governments have called for a greater proportion of the funds taken up by operational subsidies to be freed for other purposes. This occurred most notably in the period 1979-1981, culminating in the Spender Report, when there was a push to introduce a 'user pays' principle into the program; in 1985 when the Child Care Act was amended and operational subsidies were substantially reduced while fee relief provisions were improved; and the period 1987-1990, when numerous voices inside and outside Government questioned Government's role in service provision and urged its withdrawal in favour of private enterprise.

Original Subsidy Provisions

When the Child Care Act was first enacted, operational subsidies were to be the primary mechanism for achieving improvements in quality at affordable cost. They paid for 75 per cent of the salaries of approved numbers of qualified teachers and nurses. This was to enable the centre to charge fees equal to the going rate while providing a much better quality program. Fee relief was provided through what were then called special needs subsidies, which seem initially to have been paid in order to compensate services for the higher costs associated with catering for children with special needs, such as those who could not speak English, had sole parents or were isolated. The subsidy also acted as an inducement to encourage services to give effect to priority of access requirements to these groups, as stipulated in another section of the Act.

The special needs subsidy provided centres with a pool of funds from which they could reduce fees for low income families if they chose to use them this way. It seems that the special needs subsidy was originally intended also to be payable to centres enroling low income children, but this section of the Act was never operative due to a technicality. Centres actually used special needs subsidies in a variety of ways, often to reduce fees of children in special needs categories without reference to their parents' ability to pay for care.

Problems with Original Subsidies

By the late 1970s it was clear that many inequities within the program needed remedy. The Act only covered centre-based long day care (LDC). LDC was only an appropriate form of care for some needs, so many other types of services, notably Family Day Care (FDC) and Outside School Hours and Vacation Care (OSHC), (VC), and neighbourhood centres which accommodated Occasional Care (OCC) had emerged, but had to be administered and funded outside the Act. These programs all had funding bases which differed from each other and from LDC in ways which were unrelated to program needs. In addition to these problems, the funding provisions in

the Child Care Act meant that funds paid out to LDC under the Act were unevenly distributed among the States and Territories and among individual centres.

Operational subsidies in LDC were tied to staff salaries at Award rates. The subsidies paid varied widely since a range of staff qualifications could attract the subsidy. States with more stringent licensing requirements attracted more than their share of the funds, as did individual services that staffed above licensing requirements (within the limits of the staffing formula). Award rates also varied enormously. Many different unions had coverage of child care, and even within the same union, State awards provided widely differing rates (Brennan & O'Donnell, 1986; ACTU, 1989).

The staffing formula itself was open to manipulation, and this was a fairly common practice, since one extra child present on the relevant day could result in 75 per cent of the salary of an extra teacher or nurse (Grimes, 1986). Use of special needs grants was highly individual. Both factors led to wide variation in fees between LDC centres.

Fees also varied widely from one type of service to another in part because of their different subsidy structures. There was consequently a strong interest in repealing the Child Care Act and rationalising the system under a single new act from very soon after the Act was enacted.

Moves to Re-direct Operational Subsidies to Fee Relief

The idea of shifting the balance of support in LDC away from a general subsidy into a more targeted one aimed at the economically 'needy' was first mooted by a Liberal/National Party government which was still relatively hostile to the notion of women in the workforce, in a recession and looking for expenditure cuts, and philosophically in favour of small government.

Taken together, special needs and operational subsidies were estimated in 1979 to provide on average a 46 per cent subsidy to families using the Program (Commonwealth Government, 1981). The 1979 Program Effectiveness Review (PER), an internal review of the SFCP, recommended substantially redirecting operational subsidies into fee relief, so that parents, according to their means, could make a 'significant' contribution to their fees. Operational subsidies should be paid per child, rather than based on staffing, and average recurrent expenditure should be cut by reducing the average subsidy from 46 to 35 per cent, the review suggested (Commonwealth Government, 1981). A significant motivation was thus an overall reduction in expenditure on the CSP program through the cut-backs--the funds were not simply to be transferred from one type of subsidy to another.

In 1981 a governmental committee under the chair of backbencher John Spender considered this recommendation and endorsed it, but reserved views about actual

proportions for operational and fee relief funding formulas pending further financial information (Commonwealth Government, 1981). The Spender Report was leaked and the furore it caused prevented these recommendations being acted upon.

Both the PER and the Spender Report recommended changing the SFCP funding emphasis from LDC to FDC due to the lower operational subsidy and essentially negligible capital costs in FDC, "thus achieving the greatest number of 'care places' for the same outlay" (Commonwealth Government, 1981:27). At that time, operational subsidies in LDC were estimated to be $1100 annually per child, while FDC cost a mere $400. FDC lobbyists, pressuring for an improvement in the increasingly inadequate level of operational subsidy to cover the costs of the co-ordinating unit, were advised to fund raise.

An interdepartmental committee reviewing fee relief in 1983 estimated that in 1980, the SFCP was spending $29 per child per week in formal day care (Departments of Social Security, Finance & Prime Minister and Cabinet, 1983). Average fees were $39. State governments were contributing $6, giving a total cost per place of $74, or $3848 per 52 week year. The State and Commonwealth subsidy thus offset the average fee by about 47 per cent, essentially the same proportion as in 1979.

In a speech to a group convened to advise on fee relief provisions in 1983, Senator Grimes indicated that all families were receiving an average of between $25 to $35 per place per week in operational support, regardless of income. Fees averaged $40 - $49. By this time, Government was clearly becoming concerned with the competing issues of access to funded places and affordability of places within the SFCP. Grimes urged the group

> ...to remember the context in which fee relief provision must be seen. Less than 4% of children under 5 currently have access to a Commonwealth subsidised centre or Family Day Care scheme. This is a very small proportion of children... One of the Government's highest priorities must be the provision of new services (NACBCS, 1983, Attachment A:5).

He went on to say that his Government was committed to increasing the supply of funded places, and to providing services and support to areas and families in greatest need. He indicated clearly the need to balance maintaining the viability of currently funded services, ensuring access to funded services by low income groups and increasing the supply of places. Perhaps significantly, maintaining quality in services was not mentioned.

The thinking behind the Spender Report surfaced again within Government in 1984. In a draft report to the Minister for Social Security in 1984, the Social Welfare Policy Secretariat suggested reducing the operational subsidy, estimated to be $4420 per year, to approximately 30 per cent of operating costs (Social Welfare Policy Secretariat, 1984), based on per child funding. The Secretariat proposed repealing the Child Care

Act and replacing it with a Children's Services Act so that the ALP policy of a broad-based children's services program could be implemented under one instrument.

Putting a 'Lid' on Quality

The Child Care Act was eventually amended rather than repealed in November 1985, the changes taking effect in April 1986. The basis for operational funding in LDC changed to a per child subsidy. Average operational subsidies in LDC centres were reduced by half, and fee relief provisions were extended upwards to families on higher incomes, thus introducing the 'user pays' concept which the Fraser government had wanted, but failed to achieve. Once again, the motivation was in part to achieve an overall cut-back in the cost of the program. Government had predicted that average fees in LDC would jump by about $15 per week, from $55 to around $70. Average fees did rise by about this amount. A national survey of centres revealed an average fee of $73 immediately following the change (Murray, 1986), though there was a significant proportion of services with fees in excess of $80 that were granted special transitional assistance. All other centres were required to develop budgets with break-even fees of $80 or less.

At the same time, limits were imposed on fees which could be charged in FDC. These were set considerably below the level of fees permitted in centres, but reflected the highest fees being charged in FDC at the time. Major problems for FDC followed from a failure to allow subsequent increases to the fee ceiling, as this was a time of high inflation and automatic wage increases in the rest of the community. Carers were effectively required to subsidise the SFCP as a consequence of the arbitrary cap on their earnings. Much unhappiness, unrest and considerable militancy resulted from this policy.

By 1987, a second survey conducted by AECA showed that 37 per cent of centres had made budget reductions in order to relieve the burden of fee increases on users, to keep fees within the $80 limit and thus avoid having to charge the new 'gap' fee to parents on fee relief, or because of directions from the Office of Child Care to make cut-backs. Twenty percent felt the cuts posed problems for the service. Most of the cuts were to equipment purchases and maintenance provisions, but of 176 centres reporting expenditure reductions, 23 reported cuts to qualified staff, 19 reduced ancillary staff and 24 reduced the use of relief staff. Five increased their use of juniors. Nine reported reducing staffing to licensed requirements without being more specific, while seven others reported reducing staff/child ratios. Others reduced in-service training (9), or staff wages or conditions (22) (AECA, undated).

In other words, many centres had cut back on quality, beginning a trend which was to continue throughout the rest of the 1980s and which in the 1990s has become a major concern to large sectors of the industry.

In their draft report, the Social Welfare Policy Secretariat had begun to discuss the need to consider separately the fact of minimum standards for licensing, ideal standards advocated by professional bodies, and the need for Government to support 'reasonable' standards in services. In introducing the changes in funding following the amending of the Child Care Act in 1985, the Department of Community Services wrote of the need to 'maintain acceptable standards and quality of care', as well as the need to provide 'incentives for service operators and users to contain costs' (DCS, undated). This rhetoric is still largely with us.

In 1990, Government indicated a renewed interest in quality assurance, and announced that it would establish a system of accreditation, initially for LDC. Reaching agreement on the important elements of service quality will be a major challenge for the child care industry in setting up a system of accreditation through the new Accreditation Council.

Not everyone agrees that quality issues are worth pursuing. Peter Walsh (1990) has complained bitterly that quality is a 'warm, fuzzy concept which can't be measured'. Senator Alston has gone further, accusing the early childhood field of attempting to feather its own nest, in the name of quality provision (Alston, 1990). From his perspective, high quality care is an unrealistic and inappropriate goal for government. Parents should be able to choose from a range of programs of different quality, and the responsibility for their choices should be theirs.

The Fight to Keep the SFCP

A strong body of sentiment favoured privatising the child care industry throughout the 1980s. Much public discussion occurred over purported wastefulness within the funded sector, despite the findings of a major consultancy aimed at helping services operate more efficiently, which had examined high cost centres in 1986. The Touche Ross reports, in a very careful study of the cost structures of high cost services in most States and Territories, found that far from being wasteful, most services were operating highly efficiently, in conditions which shocked the accountancy team.

The report noted that most of the costs incurred by centres related to staffing and enrolment decisions, and commented that too often, policy decisions regarding these were based on an assessment of community and children's needs, rather than purely economic considerations. They pointed out that the only way to make a real inroad on cost in many services would be to reduce the standard of the service. The recommendations relating to how this could be done from an accountancy perspective created an uproar, and the reports were quietly shelved. The pity was that, some recommendations aside, the reports, particularly the individual State/Territory reports, contained much of worth. Recommendations to move to accrual accounting and

provide directors and management committees with management training were implemented, however.

The Opposition policy to privatise child care found sympathy within some quarters of Government as well as much of the media (eg, editorials in the Sydney Morning Herald, and the Financial Review, 21 July, 1988, reacting negatively to a decision by the Economic Review Committee to reject Senator Walsh's proposal to abandon operational subsidies in favour of child care vouchers). There was a period during 1988 when it looked possible that the program might be scrapped altogether. A speech by Dr Blewett to a Labor Party Policy Forum in May 1988 indicates very clearly a seige mentality in relation to the program.

> Today, it is my goal to justify to you, the delegates, the global value of the Children's Services Program - its value not only to women and children, but to the community as a whole through the increased economic well-being of the nation. It is also my goal to argue - successfully, I hope - for the program's continuation, and to advance a strategy for the future (Blewett, 1988).

The New 'Integrated' Children's Services Program

The program has continued, albeit in very different form. The shape of the new direction was signalled in a speech by Dr Blewett late in 1989, when he indicated that funding of child care in Australia needed to steer a middle course between government monopoly on the one hand, and a total reliance on tax measures and market forces on the other. The new direction was to be based on a 'productive partnership' between all the stakeholders and would include the commercial sector (Blewett, 1989).

In that speech, the Minister stated that an appropriate role for government was to provide 'targeted assistance... to stimulate supply of additional child care places, to assist in promoting quality of service and to promote affordability of care'. Government planning and incentives were necessary to retain a system targeted to the needs of the most disadvantaged, including children with disabilities and those from cultural minorities and to ensure the availability of inherently more expensive forms of care, such as the care of babies. Operational subsidies, as such, were not specifically mentioned however.

Operational Subsidies Still in the Act

When the Child Care Act was amended in 1990, the section relating to operational subsidies was not touched. It may have been considered too risky to try to make too many changes to the Act at once. There were still hostile camps within Government who would like to have seen the Act gutted altogether, as would many in the Coalition. Removal of the operational subsidies would also have further stirred up the community based sector, who were already concerned about the final implications for the SFCP of extending fee relief to the commercial sector.

The fact that operational subsidies remain in the Act means that they can only be removed by further amendment of the Act. The rates stipulated in the Act are those set in 1985. These can be increased from time to time by the Minister, but never decreased.

Thus at present there remain a set of 'funded' community based LDC centres receiving both operational subsidies and fee relief subsidies under the Child Care Act, and a second set of 'fee relief only' centres paid fee relief under section 12A of the amended Act. These are sometimes termed '12A centres' for lack of a better label. These services are a mixture of commercial services run for profit, corporate services established by businesses for employees, work-based services run in partnership between employers and community based management committees and offering a mixture of work-based and community care, as on TAFE campuses and in hospitals, work-based care provided by Government departments and agencies such as CSIRO, the Department of Defence and the Departments of Social Security and Taxation, community-based LDC funded by State governments and independent community based LDC care.

There are a further set of community based funded services, such as FDC, OSHC, OCC and VC, and multifunctional services not covered by the Child Care Act which also receive operational subsidies. The absence of clear terminology to distinguish these programs reflects a lack of accepted ideology in the new, mixed SFCP.

Peter Staples' Challenge to the Field

In his address to the 1991 AECA Conference, the current Minister, Peter Staples' called for the role of operational subsidies to be clarified in the context of needing to strike a balance between quality and affordability. He acknowledged that rising costs and falling incomes were both putting downward pressure on both affordability and quality, but said the industry could not simply call for more funds.

> The fundamental question here is how to maximise existing funding to achieve specified objectives. That question must first be answered before we can legitimately be confident of how to apply increased funding... .
>
> The fee relief system has been undergoing constant refinement and improvements to its targeting for a number of years. It has undergone a further process in this year's budget.
>
> Operational subsidy, on the other hand, has remained untouched for some time. It will come as no surprise to you for me to admit that operational subsidies have constantly been very controversial, and are criticised in many quarters for their perceived poor targeting.

> I do not share the views of the flat earthers, as I think should be apparent from the results for child care in the last two budgets.
>
> We do, however, need to look closely at what we believe operational subsidies are designed to achieve. And we need to take that look because critics are asking precisely that question. But also, we need to ask that question to be certain that the objectives are being achieved in the most effective manner (Staples, 1991:13-14).

The Minister went on to make it clear that resolution of the question of operational subsidies had to occur before problems of gap fees, especially for low income families, could be addressed.

He gave operational subsidies the following purposes:

- improved responsiveness to special needs, especially where care involves higher costs;
- a subsidy for the care of babies;
- a floor under affordability;
- a general measure to improve standards;
- keeping the market fee below the full cost recovery level for a quality service;

but asked the field to consider the following questions:

- Do operational subsidies improve quality across the whole industry?
- Do they stimulate the forms of care needed and promote equity of access for high cost forms of care of babies, children in rural and remote areas and children with disabilities?
- Do they significantly improve affordability?
- Are they equitable given that they are not available to users of commercial, employer sponsored and fee-relief-only non-profit services regardless of the quality of care offered?
- Is there any way that we can improve operational subsidies so that they improve outcomes and serve as a more effective policy tool?

The 'Level Playing Field' Position Adopted in the Government's February Issues Paper

If the Government's true agenda was veiled in September, it was clearly revealed February. In his foreword to the issues paper, the Minister presents the funding review as an opportunity to 'fine tune' child care assistance by developing 'consistent and complementary funding structures across Australia's child care program, enhancing flexibility within and between service types to make the best use of resources (Staples, 1992:foreword). He indicates clearly that Government has already

decided to go for a 'level playing field' between commercial, corporate and community child care services by 'removing anomalies between sectors and service types', and to 'target' operational subsidies (ie Funding packages 2 - 5 in the Government's issues paper, or some other comparable redirection of the funds from operational subsidies).

The Continuing Struggle Between Clashing Ideologies within Government

There exists a tension in today's Government between older style interventionists and the newer breed of economic rationalists over the proper role of governments. The interventionists give governments a legitimate interest in helping to shape society, and assign them a right to deliberately interfere with market forces in order to achieve social as well as economic goals, for the country as a whole or for identified special needs groups. The economic rationalists, on the other hand, view all government programs through the filter of economic usefulness, and place almost total faith in the ability of market forces to achieve the 'common good', narrowly defined (Pusey, 1991).

The present Labor Government still pursues social justice goals through a range of interventionist strategies and programs, but is required to fight constant internal battles with those interested in reduction in government expenditure and a diminished role for government in favour of the private sector. It would seem that for the moment, the 'rationalists' have gained the upper hand.

In this regard, Australia has not been immune to the influence which 'New Right' thinking has had on much of the industrialised world over the last decade. That the SFCP survived the 1980s is perhaps surprising. (Some within Government consider that its survival was due in no small measure to its role in providing thousands of child care places for the Jobs, Employment and Training (JET) Scheme introduced in 1988, and the direct and extremely positive contact with community-based child care services this program gave other sections of government.)

What would be an immense pity, now, would be the destruction of a successful, if fledgling, national program of child care services because of an ultimate inability to escape following in the wake of a ship that appears to many of us to have already sunk. Even among conservatives, there is a growing doubt about the underlying validity of economic rationalism (Toohey, 1992), and a growing concern that its emphasis on individualism, markets and competition destroys social, religious and cultural cohesiveness. A decision by Government to eliminate a distinctive community-based LDC program in order to be seen to be giving equal treatment to commercial interests could well be taken at the same time governments around the world begin to take steps to set up what our Government would be dismantling.

Were it not for the stranglehold the philosophy of the 'level playing field' has over government, the present dilemma over overcommitment of child care funds would be

open to a number of different, non-destructive solutions such as imposing a planning 'cap' on new centres wishing to receive fee relief, delaying implementing the further expansion of services until there is the necessary support within the community to meet the cost, or, more radically, withdrawing fee relief from the private sector and at the same time assisting those within the private sector who wish to, to convert to non-profit centres.

Why We Believe That 'Equal Treatment' Means Ultimate Destruction of the SFCP

The changes in funding being contemplated by Government involve removing differences in recurrent funding where there are competing commercial services. This is mostly in LDC. All of the seriously offered options in the Government's issues paper involve removing operational subsidies in LDC and replacing them with subsidies that could be used to 'target' special needs across the whole industry. Once there are no distinctions between the sectors, what reason is there for Government to have any special role in service provision? Why not withdraw altogether in favour of the private sector? What business is it of Government to be involved in child care anyway?

Those are questions which we believe Government would inevitably and increasingly face if distinctions were removed. Why worry about a privatised child care system? Perhaps we should look at Ontario which has such a system now, and is planning to change to a system more like ours. To quote further from their public consultation paper:

> As a society, we agree that some services are so essential that government must ensure they are available to everyone who needs them. That's why most hospitals and schools in Canada are publicly funded and universally accessible.
>
> Child care is an essential public service. The Ontario government believes that the best way to make it universally accessible is to encourage the expansion of non-profit, community-based child care services.
> Public money is limited, and must be placed where it will create the greatest public benefit. The best way of promoting high quality programs is to direct funds where they will improve services. Institutions receiving public funds should be directly accountable
> to users, taxpayers and government. For these reasons, public funding will be used to support non-profit programs.
>
> We recognise the important contributions of for-profit
> programs in providing a service before government funds were available for child care. But we do not believe that public funds should be given to for-

> profit ventures, where the care of children is concerned. Child care, like health or education, is too important to be influenced by pressures of the marketplace.
>
> For-profit centres will continue to exist and be licensed. They will not receive new public funding, but over the next five years, we will assist in converting to non-profit status those who wish to do so.
>
> Our long-term goal is to create a universally accessible system. We believe that funding non-profit child care is the best way of achieving this end (Ontario Ministry of Community and Social Services, 1992:6-7).

The Ontario government has observed that many of their child care programs have become too dependent on fee subsidies, through a costly system requiring users to be means tested and have fee levels individually assessed. They are looking instead for a system of funding which would provide a base level of funds direct to the service sufficient to bring fees into the price range of most families while covering the costs of quality care and special needs provision. Sound familiar?

Operational Subsidies, Service Quality and Community Infrastructure

The Commonwealth government intervened in child care in 1972 out of concern to improve the standard of care then available. Apart from a small number of charitable services operating within a welfare model, most child care was privately provided on a for-profit basis, and by all accounts amounted to little more than 'child minding', custodial care. The employment of staff with child-related training was neither common, nor required by State regulation. There was no community based sector as we know it today.

The writers of the Child Care Act, like the Ontario Government, required that centres funded under the Act be non-profit, community based services. The intention was to create a set of services in which not only would children receive an improved level of care, parents and the wider community would benefit as well. Their community-based management structure would mean that parents would have the capacity to become directly involved in centre management, and the centres themselves could form part of a larger network of community services, together forming a crucial social infrastructure to support families as units, and individuals within them.

Until 1991, all children's services within the Government SFCP, the LDC, FDC, OSHC, VC, OCC, multifunctional centres and, in earlier times, neighbourhood centres, have had to meet the definition of eligible centres provided in the Act, that is, community based and non-profit. The resulting national program has been highly successful and, in the view of many, has been responsible for raising the standard of care provided across the entire industry, including commercial centres.

Dr Blewett (1989:16) acknowledged the crucial role of the community based sector in providing the foundations for successive Australian Governments' child care policies. "Without its co-operation and enthusiasm, child care in Australia would not be as effective as it is today", he concluded.

There is other official acceptance that the face of child care has changed dramatically since the Commonwealth government intervened in the marketplace. A Full Bench of the Industrial Relations Commission agreed with the findings of an extensive inquiry of the child care industry, which concluded that important changes had occurred across the whole child care industry. The nature of care now demanded by families is very different from the custodial service once accepted. Carers at all levels now need training to do the jobs expected of them, and those in supervisory positions need early childhood qualifications (IRC, 1990). Evidence given to the inquiry showed that the availability of suitable training courses, more stringent licensing standards, and new, complex duties for workers had all come about as a consequence of the 1972 Child Care Act and its provisions for qualified staff (Laing, 1990).

During the inquiry, the commercial sector had argued that it was unaffected by these changes, that programming in
their services amounted to little more than thinking up a list of activities while driving to work, that anyone could work effectively in their services without specific child-related or care-related training, and that their parents only wanted 'loving and caring' custodial services. However, their plea for a separate award was defeated by the acknowledgement of licensing requirements that they provide a developmentally based program and their own admission that they believed they provided developmentally sound programs. Whereas the commercial centres had sought to distinguish between 'developmental' and 'educational', programming and argue that only the latter required special skills and training, the Commissioner dismissed this notion categorically.

Market forces push the organised commercial sector to resist improvements in awards rates and conditions, and to fight against raising licensing standards. The funded community based sector has until now acted as a strong upward force on standards for workers and children. In the absence of operational assistance, many believe that some groups within the community based sector would be likely join forces with commercial interests to try to reduce these standards in an effort to cut costs.

Some argue this would be a good thing. The Opposition believes that standards within child care should not be the concern of the Commonwealth Government, and that good quality care is not a realistic goal for every child. Instead, individual parents should be able to choose a quality of care to match their standard of living and value system. Poor parents should be entitled to choose minimum standards for their children, while wealthy parents should have the option of choosing between purchasing child care of better quality or spending their money some other way, and Government should stand aside from influencing this exercise of parental right (Alston, 1990).

We believe that such arguments are unacceptable. Modern governments must be concerned with quality issues. What happens to children during their most formative years affects their later learning and behaviour in profound and potentially long-term ways (Phillips, 1987; Breedlove & Schweinhart, 1982; Child Care Employee Project, 1989).

New standards of State licensing and raised parental expectations should help to ensure that standards never return to the pre- 1972 level, even without further intervention in the form of operational subsidies to the community based sector. But experience in related
programs, such as nursing homes, shows that there is little room for complacency or confidence that market forces alone protect users in services like these, especially when the consumer is not the purchaser.

This appears to be the conclusion of the Ontario Government which, in arguing for reform, is calling for the cornerstone to be a Government commitment to promote and assure care of good quality. Their discussion paper states:

> Standards must be developed to cover <u>all</u> regulated child care services and should focus on measures of quality and quality outcomes. The goal is to have clear measures of successful programs, to make existing programs more effective and establish high benchmarks for all services... .
>
> Program content and staff/caregiver qualifications are two of the most important ingredients of high quality child care services. All strategies that promote excellence in staffing, including training and development programs as well as salary enhancement programs, must be explored (Ontario Ministry of Social Services, 1992:13).

There is an ageist bias in our culture which leads us to assign greatest value to adults and adult activities and which blinds policy makers to the significance of young children's early experience. The intense national interest in skill formation and the policy commitment to the development of key competencies in post compulsory schooling and in industry ought to be aligned with a national focus on early childhood programs, where these competencies have their foundation. There would be a profound irony in a Government decision to abandon concern with child care quality at the same time as vast resources and energies are being directed at education and training programs for young adults.

SFCP funded FDC has largely displaced 'backyard minding' by providing parents wanting family-style care with good quality, developmentally sound care of known standard, with back-up facilities and strong linkages with other community services. The support and resourcing provided carers by co-ordination units and each other brings significant community support into neighbourhoods. This is perhaps as important overall as the child care service being provided. The fact that the present

Government's employment policy focus for the SFCP may lead it to ignore these spin-offs does not diminish their importance.

There remain critical issues to be resolved within FDC, especially concerning carer pay and conditions, but there is little doubt that FDC is worth preserving. To survive, FDC requires operational subsidies. This need appears to be recognised by Government, and none of the five funding packages provided in the Government's issues paper involves removing operational subsidies from FDC.

OSHC services, too, consider that many programs would fold without operational subsidies. Fee increases resulting from the withdrawal of operational subsidies are likely to lead to enough extra families relying on the 'latch key' to force the closure of many services, even if fee relief provisions improved as a consequence of the change. Recognition by Government of the special needs of OSHC for operational subsidies is perhaps reflected in the fact that only one of the five funding packages presented in the discussion paper suggests their removal.

How Much Can We Afford?

Ontario spent an estimated Aus$489 million on child care in 1991. Australia plans to spend $370,263 in 1991-92. Ontario's population was 9,578,000 in 1989 (Canadian High Commission). Australia's, at June 1991, was 17,335,900 (Australian Bureau of Statistics). Why is it that Australia cannot afford at least the level of expenditure of a province scarcely half our size? Are the issues really economic, or are they fundamentally about philosophies, values and priorities?

Without Operational Subsidies, How Many Community-Based Sponsors Will Continue to Run Child Care Services?

If operational subsidies were withdrawn, there is the real question of how many of the present sponsoring bodies of community based child care would retain an interest in managing child care services for Government. Commercial interests hope for a profit. Corporate interests hope for improved performance and stability within their workforce. Where is the incentive for community organisations? Why would they continue to bother with running child care services in the absence of operational subsidies? Local governments are already worried about the extent to which they underwrite the cost of child care. Churches and other community organisations might also be pushed to re-think how they wish to use their scarce resources of community time and energy when a wide range of other pressing community concerns such as care of the aged are competing for attention.

Some parent groups may continue to run services for themselves, but how many? What is different now from before the passage of the Child Care Act, when there were

no community based services? Some argue that operational subsidies have already been reduced to such a low level that they are almost more trouble than they are worth. These people worry that some community based services are already at the point of losing interest in meeting Government priorities. It would be easier for parents with resources (the ones most likely to have time, skills and interest in running a centre) to forget community needs, forget fee relief and run with a service for the well off. What would prevent this tendency increasing?

Unpacking the Notion of a 'Level Playing Field'

The view that the community sector wastes funds has had widespread support, particularly among those with a bias towards private sector provision, but there is very little solid evidence to support it, and a substantial weight of evidence against it. The national Touche-Ross consultancy confirmed that the community funded sector costs more but found no evidence of waste. Rather, they identified high-cost factors operating in the sector, such as running small centres in converted housing, operating extended hours, enroling young children, and using higher staff/child ratios, more qualified staff and the like.

A 1988 census of the commercial sector conducted by the ABS confirmed that commercial centres were providing a service which was less costly on the basis of enrolment and staffing decisions, though a Departmental comparative analysis of these figures and their own revealed that there were some extra costs within the community based sector which could not be attributed to these sorts of factors, according to the Minister at the time, Neal Blewett. Attempts by others, for example Community Child Care, NSW, to conduct meaningful comparative costings have proved too difficult to analyze. Margaret Hunter of the South Australia Council of Social Services has just carried out a comparative analysis of a sample of funded and commercial centre costs for the Department, with particular focus on the costs associated with rural and remote services, extended hours care, and services in low economic areas where gap fees are posing particular problems. Her data have not been released as yet, but may prove useful in guiding further studies of this kind.

A superficial and incorrect analysis by KPMG Peat Marwick has been widely reported as showing commercial centres are more efficient, despite admissions from the author that the study was very limited, relied on figures given the firm by the commissioning commercial child care association, and contained errors based on misinterpretation of departmental data (AECA, 1990). Gifford (1989a) discussed some of the complexities in considering issues of 'waste' or 'efficiency' in child care funding when confronted with centres operating with different budgets. Being clear about the goals of the services to be compared is a pre-requisite to making sensible comparisons.

The Operational Subsidy and Quality

The claim that it is unfair or inequitable to differentiate in funding terms between community based non profit services and commercial services is at the heart of this review. It is a claim which asserts that market forces will protect quality and ensure the provision of the level of service for which the market is prepared to pay and that the profit motive will ensure that the cost per child is kept to the minimum necessary to provide the service. Improvements which drive up costs are resisted. Cost per child, not quality of care, becomes the sole the measure of effectiveness because it is that which bears most strongly on profitability.

This argument loses its force when it is realised that the commercial sector would actually be at a significant advantage if the operational subsidy was withdrawn from the community sector. The level playing field actually operates the other way.
It is normal business practice to underwrite the quality of an enterprise from profit generated reserves. This is seen as a legitimate and necessary investment for future improvement in profit levels. Only the commercial sector is in the position to generate profits. The community sector operates on a break even basis and so in the absence of an operational subsidy only the commercial operators would be in a position to invest in those aspects of a service which improve quality. The efficacy of this argument is verified by the fact that the corporate sector invests the equivalent of an operational subsidy in their services so that a quality service can be provided at a price users can pay. The Department of Defence and CSIRO offer similar subsidies.

The corollary of this is that in the absence of an operational subsidy for the community based sector there is no external pressure on the commercial sector to invest in quality and so match the quality of service provided in the community sector. The argument that the community sector has driven up the quality of child care provision overall and that consequently quality would be undermined in the absence of an operational subsidy has its roots in this analysis.

Another aspect of the level playing field analysis which needs further examination is the claim that the 'playing field' would become 'level' by removing operational subsidies in funded community services. Many consider that taking operational subsidies away would seriously disadvantage community based services compared to others, particularly centres in the corporate sector, where corporations offer the equivalent of current operational subsidies or more to provide quality care at prices companies consider reasonable for employees. The taxpayer meets this cost because companies can deduct operational support of child care from corporate tax liability. Child care being provided by the Department of Defence is also providing operational subsidies for children on bases at taxpayer expense, as is CSIRO, which has reluctantly agreed to underwrite deficits in their centre in Canberra. Government departments are also able to offer operational subsidies to child care services they establish, provided the funds can be found within their operating budgets. How many

will do so, in the interests of providing a service of acceptable quality to their workforce?

Much more would need to be known about negative gearing options available to commercial centres to pass judgement on their playing field. Provided the owners of commercial centres have other sources of income, they too have options for significant underwriting of their support to programs through the taxation system.

Social Justice and Equity Issues in the New SFCP

Social justice and equity issues need to be considered in a context in which significant reliance is placed on taxpayer support of child care which may be directed to corporate 'high flyers', rather than the workforce as a whole. Including corporate child care as a major partner in a national SFCP means that Government loses substantial purchase on this issue, unless other measures are introduced, perhaps through legislation associated with compliance of ILO 156, to ensure equal access to child care across the entire workforce within a company.

Were targeting of operational subsidies to result in a weakening of the community based sector, social justice and equity of access issues would be severely exacerbated.

The Accreditation Council and Quality Assurance

Government has placed much emphasis on the ability of an accreditation system to assure quality. This may be the case. But a functioning accreditation system is still a long way off. The Coalition is hostile to its creation (eg Alston, 1991). Even under the present Government, it is unclear who is to pay for accreditation. Unless a financially independent system can get up and running before a change of government, there is unlikely to be one.

If operational subsidies were dropped now, in advance of accreditation, they are unlikely to be re-instated if accreditation founders.

Achieving soundly based, nationally consistent standards and an effective accreditation system would seem to be essential pre-conditions to the Commonwealth withdrawing further from concerns with quality. It is imperative that operational subsidies stay 'in operation' at least until these pre-conditions have been attained and tested. Even then, we believe that quality issues are too important to be entirely entrusted to a single agency. All parties, State governments through licensing and regulation, the Commonwealth Government through its policy thrust and (hopefully increased) research effort, and the industry through its Accreditation Council, need to work co-operatively to support the highest standard of service we can achieve.

Shifting the Balance of SFCP Funding Back Towards Operational Subsidies

We believe it is more sensible to begin arguing for increasing the role of operational subsidies in the SFCP.
Over time, there has been a significant shift within the Australian SFCP away from operational subsidies to fee relief as the main mechanism for bringing child care into the price range of average families. Especially now that child care is clearly an essential mainstream service, there seems merit in re-examining the ideal mix of operational and fee relief subsidies. Administratively, reducing fees through the mechanism of providing services with operational subsidies would be much simpler and much less costly than extensive use of fee relief which involves mass levels of income testing, mass adjusting of fees at a variety of different levels, tracking the individual fee adjustments required to match changes in income and accounting for each receipt as now demanded by the Department. The welfare stigma now placed on ordinary families who currently have to apply to for fee relief is inappropriate, and would disappear.

Across-the-board operational support of child care programs could be justified on the same basis as other non-means tested services currently provided such as schools, hospitals and roads which are paid for differentially by those with more money through the general mechanism of taxation.

This line of argument will only be seen as more than 'pie in the sky' when expenditure on child care is generally seen as a legitimate expense for the community as a whole to incur. Implementing needed structures and/or legislation to comply with ILO 156 may speed such acceptance. It may be possible for the community to accept a graded return to the use of operational subsidies rather than fee relief as the main affordability mechanism for child care. On this basis, we believe that eliminating operational subsidies now would be a mistake. Once gone, improved use of operational subsidies as a universal access support mechanism would be extremely unlikely.

Issues of how to treat services operated for profit would need careful consideration. New Zealand has experimented with a system of operational subsidies which includes commercial centres with mixed results. The Ontario Government believes emphatically that Government funding of services which are not accountable to the taxpayer is inappropriate, and many child care advocates in Australia support this view. The Australian Early Childhood Association's policy position supports direct funding to non-profit children's services.

PART II - TARGETING SPECIAL NEEDS

It has been suggested that operational subsidies be re-focused to represent a contribution towards the cost of care of special needs groups in the way special needs subsidies (rather than operational subsidies) were once intended to be used. In September 1991 the Minister suggested specifically addressing the needs of children in rural and remote areas, children with disabilities and the need for more places for babies with such a subsidy.
Previous attempts to target special needs through special subsidy provisions have only ever been partially successful. The special needs children targeted in the first version of the Child Care Act were children of single parents, newly arrived migrants, parents covered by a section of the National Health Act (intended for families in economic need but inoperative because of repeal of the relevant Act), and children of sick or incapacitated parents.

These subsidies were largely ineffective for a number of reasons. The levels were not adjusted often enough to maintain their power to be used as intended. Their intended purposes were unclear in any case (Jones 1983), and in some instances misguided. There was little communication to services about the subsidies, and consequently a poor understanding of how they were to be used.

Single parents were attracted to the program in large numbers, but probably did not need the special needs subsidy as inducement they would have come anyway. The underlying notion that these children were in need of special attention within the program, hence would cost programs more, was a remnant of the older welfare model of child care, when single parent families tended to be highly socially disadvantaged populations. The Family Law Act had made divorce respectable, and single parent families were much more part of mainstream society than formerly. Single mothers especially typically needed to have fees reduced, but exceptions to this rule were not uncommon.

It is doubtful that the special needs subsidy helped services target ethnic children. Many factors probably contributed to the poor take-up of places by non-English speaking migrant families, but the Anglo-centric nature of most programs was probably an important barrier. Perhaps the most progress has been made here through focused program support, where staff are given the necessary in-service training and resources to make their services multiculturally appropriate and able to run genuinely anti-bias programs.

The same issues underlie the targeting of children with disabilities. Program support to ensure staff are knowledgeable and confident about meeting the needs of children with disabilities is crucial. Expansion of the resources and expertise available to guide services in how best to integrate children with disabilities may be more important than raising the funding base within an individual service, although the issue of hands-on help for programs enroling some types of disabled children, or the need for physical

modifications of buildings cannot be ignored. The Supplementary Services Grants (SUPS) which provide specialist workers, hands-on workers and capital grants to help services integrate children with disabilities seem to be the most appropriate general approach, but, like program support, need much more adequate funding.

Changes to Special Needs Funding

Problems with the special needs subsidies were identified early, but not addressed for several years. The 1979 Program Effectiveness Review (PER) referred to the need to differentiate two distinct objectives of the special needs subsidy: assisting 'children who are deemed to be especially in need of child care services, and assisting poor families who have an economic need for assistance in paying for child care' (Commonwealth Government, 1981:5). The PER recommended that in addition to operational

subsidies and fee relief, a special service subsidy be introduced to help services provide more costly care to children in special need for example extended hours care, care of migrant children or children with disabilities. This proposal seems to have formed the basis for SUPs grants which were introduced in July 1983. Together with Special Economic Needs Subsidy (SENS), a fee relief subsidy for low income families introduced in 1983, the confused goals of 'special needs' subsidies written into the Child Care Act of 1972 were finally disentangled.

SUPS Grants

SUPS grants were first introduced in 1983, when the original special needs subsidies were split into Special Economic Need Subsidies (SENS) and SUPS grants. Whereas special needs subsidies had been paid to every centre which enroled a special needs child, and the level of subsidy depended on the number and hours of attendance of such children, SUPS grants are only available to selected services, or increasingly, regional groupings, on the basis of submissions. Recipient services have to demonstrate sufficient need to justify the employment of a SUPS worker. SUPS grants have also been limited to employing extra workers to help integrate children with disabilities or who lack English, into mainstream services.

A recent review of SUPS grants has taken place, but to date the only public outcome appears to have been the development of guidelines for services receiving SUPS grants, requiring them now to extend their services to include the private sector. Although some additional

funding was provided in the 1991/2 budget, the additional amounts are considered insufficient to cover the new task at the same level.

It is understood, however, that one outcome of the review is a decision to apply a regional model to SUPS workers, making their attachment to individual services less common. While this makes a great deal of sense at one level, it leaves needs for hands-on assistance in services for
children with some types of disabilities unaddressed, although in some places a pool of casual workers is being used for this purpose. Also, the special type of funding required by a regional model needs to be acknowledged in, for example, travel allowance and administration, as is done now in some regions.

Funding Package Options Relating to Special Needs

The Government's February issues paper suggests using operational subsidies to develop incentive payments to centres for offering places for under threes in LDC, or for rural and remote services. None of their suggested options address the special needs of children from non-English speaking backgrounds or children with disabilities.

These options are presented as being in competition with options which would attempt to redress problems with the fee relief system, discussed below.

An important issue to be considered would be whether the available funding would be sufficient to achieve any worthwhile purpose, or whether it would end by being spread too thinly to be of any practical assistance to individual services or target groups. What level of subsidy would be needed to meet the cost of providing care for rural and isolated children? Children with disabilities? If operational funding were available for care for children under three, how many centres not providing this care now would respond? Would this area alone consume most of the funds now spent on operational subsidies for children over three?

We do not consider that sufficient information is available to guide responsible decision-making on these issues.

PART III - FEE RELIEF

The problem of affordability for very low income families in services has become acute. Although the lower threshold for eligibility for fee relief has been raised in recent budgets, minimal increases in the fee relief ceiling have meant that families already eligible for maximum fee relief have been increasingly required to pay fees well outside the means test, due to the growing size of gap fees.

Government has agreed that the fee relief system has major problems. It is now proposing that operational subsidies could be better used if they were directed into fee relief.

Changes in Fee Relief

The fee relief system now in place was introduced in 1984, but was preceded by the introduction of an income-related SENS in 1983. The first attempt to devise a workable system had a number of shortcomings. The incoming Hawke government undertook a national consultation in 1983, and introduced a refined, fully standardised system for use in LDC and FDC in 1984. Comparable fee relief arrangements in OCC and OSHC have still not been achieved. OCC was given a single-level fee relief provision in 1988, and OSHC gained two levels in 1990. A 1991 budget decision to place OSHC fee relief onto a sliding scale, though at a lower level than LDC and FDC, has been deferred until the beginning of second term 1992.

The Introduction of Fee Relief Ceilings and the Emergence of Gap Fees

When the burden of cost within LDC was shifted more directly to parents in April 1986, and the direct tie with staffing costs was broken through the per child rather than per staff subsidy, steps were introduced to contain costs within LDC through a budget scrutiny process and the imposition of fee relief ceilings. Maximum ceilings were set for all services, but individual services had fee limits which were often below the ceiling, based on the Department's view of individual items of expenditure, and an approved fee structure designed to lead to a break-even budget.

For a time, centres with approved budgets with break-even fees above the fee relief ceiling were allowed to charge gap fees to parents to make up the difference. Later, the Department permitted gap fees to be charged to full fee paying parents, but not subsidised parents, for unapproved items of expenditure. With the inclusion of the private sector, attempts at controlling fees through budget scrutiny have essentially been abandoned, though community-based budgets are still technically 'scrutinised'. The main instrument for containing costs remains the fee relief ceiling.

FDC schemes have always had their fee structures approved, but until 1986 or thereabouts most fee increases were approved automatically in line with CPI increases. In a move to achieve coherence of fees nationally while containing costs, the Department began approving increases to fee schedules in such a way as to gradually bring fees into line across the country. Thus some schemes were allowed greater increases than others, and schemes with the highest fees were made to hold them constant at $65. From 1988 onwards, gap fees were permitted in FDC.

The Extension of Fee Relief to Commercial Centres

The 1979 Program Effectiveness Review recommended that fee relief provisions be extended to the commercial sector. The Spender committee modified this recommendation, suggesting Government 'go slow' with a limited trial (no more than

5 centres per State) for one year only. The Spender Report noted that the PER assumed that the standard of care provided in commercial centres was lower than that offered in subsidised services, but felt unable to judge this claim. In any case, the report pointed out that with 30% of services in Sydney being commercial, commercial services had to be considered an important part of child care provision, regardless of the quality of care provided (Commonwealth Government, 1981).

This recommendation, when leaked, was also highly controversial. AECA supported the pilot program for commercial services, a policy position which was later reversed but which split the Association for a considerable time afterwards. NACBCS unequivocally opposed the proposal. Senator Chaney told a delegation from NACBCS that he believed in evolution, rather than revolution, and shelved the plan.

Pressure from the commercial sector became acute from 1988 onwards, and won support from women's groups and eventually the ACTU, who were anxious for more affordable child care for their membership. The Labor government finally extended fee relief provisions to the commercial sector from January 1991. The decision was linked with a promise to establish a system of accreditation as a means of assuring quality within programs receiving fee relief.

The system introduced in 1991 to the commercial sector was intended to be simpler to understand, related the fee relief rebate to hours of care rather than sessional fees to discourage abuse by private preschools, and required much more stringent accountability procedures for claims than the system applying in the funded sector. Intended to produce the same result, the new system in fact occasionally gave parents higher or lower rebates in the two types of services, depending on the hours of care used.

The 1991-92 Changes to Fee Relief

To eliminate these anomalies, Government announced in the 1991-92 budget that fee relief in funded services would be changed over to align with the system in use in fee-relief-only services. This decision caused a great deal of concern in the community sector, as the accountability procedures proposed were unnecessarily cumbersome and expensive for a sector long accustomed to handling Government funding without difficulty. For some services, such as FDC, the new arrangements looked completely unworkable.

Improving Fee Relief Provisions

There is no question that there is a problem associated with the current gap fee. But using the pool of funds saved from operational subsidies to give special assistance to families at the bottom end of the fee scale would then disadvantage other families with incomes too high for this help. A difficulty with cut-off points will always exist

as long as service fees in excess of fee relief ceilings result in gap fees that require some families to pay more for fees than the sliding scale indicates they should.

It seems to us that an equitable fee relief system requires fee relief that matches reasonable costs incurred in the service. Whereas once the fee relief ceiling was set at a level beyond the maximum fees of all but the most costly services, now it fails to reflect in any way the real cost of care, giving average gap fees of $17 per week in community based centres and $19 per week in private centres (DHH & CS, 1992). What is needed is a realistic benchmark level of costs for services. This is not a simple
exercise, but there are precedents which can be followed from other Government programs, notably schools (Commonwealth Schools Commission, 1984).

Given that something needs to be done urgently to address fee relief problems, does it follow that the funding needed should come from operational subsidies? It is our view that the unintended consequences of removing operational subsidies would far outweigh the short-term gains from this solution.

PART IV - THE SFCP AND NON WORK-RELATED CARE

In the 1991-92 budget the Government announced a new, two-tiered system of fee relief in which work- and non-work- related care would attract different rates of fee relief. The system was intended to give services greater flexibility to meet a mix of needs within a single program. It was hoped that failing occasional care services could be enticed into long day care provision. At the same time, families using the work-related programs of LDC, OSHC and FDC could be 'flushed out' with higher fees. Priority of access guidelines could be replaced with a more market oriented fees differential. This decision also met with an outcry from the community. Great concern was expressed about the impact of the change on children at risk, and for the viability of services in depressed areas where substantial proportions of enrolments were non-work-related and clients likely to withdraw from care.

The SFCP has a long history of provision of non work-related care. Although administration of the Child Care Act was originally the responsibility of the Department of Labour, reflecting its status as an instrument of labour-force policy, under Whitlam the program moved to the Department of Education, under Fraser to the Department of Social Security and under Hawke to Community Services. Even as drafted by the Department of Labour, the Act had a significant focus on the needs of children. The primary motivation for the Act was to provide work-related child care, but children in need of formal early childhood programs were to be given priority of access. Working parents were only added to the priority list in 1978.

The definition of children's needs for programs was unrelated to the workforce status of their parents. Rather, needs referred to such things as their need to learn English or to mix with other children. Though not originally included, children with disabilities later fitted into this type of category.

The original Act also included categories which focused on family needs, again irrespective of workforce status: children of sole parents, children with incapacitated parents, and children whom the Minister might consider needed care (children 'at risk') (Jones, 1983). Funded programs were to grant these groups first claim on places, and received a special needs grant to encourage them to do this as well as to offset some of the extra costs associated with meeting their 'special needs', such as reducing staff/child ratios or employing bi-lingual staff.

A 1978 statement clarifying special needs groups to be served by the SFCP included nine different categories of non-work-related need which were to be given priority of access (Departments of Social Security, Finance & Prime Minister & Cabinet, 1983).

The Spender Report, in recommending that the SFCP focus on providing mainstream services, considered that only service directors could sensibly sort out one family's greater need for care over another's and recognised that economic need was potentially unrelated to need for care. 'A child from a poor family may be a very happy child and not in need of any access at all; conversely, a child from a wealthy family may be a most unhappy child and one who would benefit greatly from access' (Commonwealth Government, 1981:8). The Spender Report gave no attention at all to work-related needs.

It has been the present Labour Government which has tried to tease out work and non-work related components of the program, and which shifted the focus of the program away from the needs of the child to the needs of adults. Access guidelines were sharpened in 1984 to emphasise the work-related nature of the program. Priority groups were ranked, with work-related care coming first. In 1985 the Department attempted to withdraw completely from 'welfare' oriented care, claiming that this should be a State responsibility. Children 'at risk' were to receive access only if places were left after the needs of working parents and parents with a continuing disability or incapacity had been met. Families needing occasional care were to be catered for last. Heavy emphasis was placed on centres having to prove they were meeting priority of access guidelines. For a time, Departmental officers were claiming children enroled for lower priority reasons had to be removed if a family with a higher priority wished to enrol their child, though this stance was later softened.

Apart from children at risk from serious abuse or neglect, the claims on SFCP places by children disappeared altogether, and have never re-emerged. Children without English, or who were isolated, Aboriginal, or from ethnic minorities or sole parent families, or who had a physical or intellectual disability were entitled to care only if their parents' need for child care fitted into one of the four priority categories.

The Need for Occasional Care Services

Due to the high demand for child care by working parents, the new priority of access guidelines eliminated the possibility of access to the main SFCP services for many non-working parents. In response to pressure, a small specific-purpose Occasional Care (OCC) program was established in 1986, to provide a total of 3,000 new places by 1988. The approximately 120 new centres would be in addition to an existing 100 or so centres already providing essentially occasional care.

In determining the funding policy for the new centres, Government made the following assumption:

> It is reasonable to assume that if a family is using a few hours of care each week, they will be able to afford a reasonable fee for limited hours of care. The extent of care has a bearing on the capacity of a family to meet the cost. Users of occasional care services may be expected to meet a higher hourly cost than say, a family for whom long hours of care (say 40 hours a week) are essential (ie. $7 or $8 compared to $70 or $80 a week) (Office of Child Care, 1986:8).

This assumption proved problematic. Widespread under utilisation in OCC may have been due to many factors, but most service providers blame the high cost of care. Families using OCC usually have single incomes or pensions and earn no money while using the service. Fees set too high appear to turn what should be perceived as an important support service into a luxury to be forgone.

Balancing the Need for Work Related and Non Work-Related Care

The proposed distinction of work and non-work related care within a single service's fee relief provision has many problems. On the positive side, allowing specific-purpose OCC centres to convert to LDC would give these failing centres more flexibility, though this will not be a viable option for many services, for example those located in shopping malls--and may require capital investment where licensing standards distinguish between OCC and LDC facilities.

On the negative side, families with single incomes or on pensions cannot afford to pay more for care than families in the workforce. Many families have been using LDC precisely because they have been unable to pay for OCC. These families would have to withdraw under the new system.

The exemption mechanism for 'at risk' children is also believed to be too cumbersome and stigmatising to safeguard all children now attending services who are in this

category. Families whose children are at risk are by definition not coping. Directors need to use discretion and tact to encourage some of these families into care.
It is not clear whether priority of access guidelines were intended to continue to apply. In a unified system, if working parents were still to have first options for places, parents at home would have no protected claim on the SFCP. In areas of high demand for work-related care, their needs could be expected to be overlooked.

One option suggested in the Government's issues paper is that the lower level of fee relief be replaced by a rationing on the number of hours which could be used for non-work related care each week. This solution appears worthy of serious exploration although considerable reservations exist within both AECA and NACBCS about the proposal. Care would need to be taken to ensure that the limit set was sufficient to meet average family needs for occasional care, and did not impact adversely on service viability or quality. Families in special circumstances would also obviously need access to unrationed hours.

Creating a Unified System of Funding an Important Goal

The need to systematise the patchwork of funding provided within the SFCP has been recognised for many years. Child care groups have been urging such an improvement for a very long time. There seems no justification for a different level of fee relief to be available in OSHC than in other services, for example.

This may not be the same as creating a uniform funding system, however. It may prove to be the case that different service types will need different levels of operational funding. For example, if operational subsidies were reduced or eliminated, families in LDC who technically can 'afford' the higher fees may be more likely to continue to use the service than comparable families using OSHC. These families may in fact choose the latch key option for school-aged children. The community as a whole may see merit in providing supervised programs for older children in order to reduce drug and alcohol abuse, delinquency, truancy, youth alienation and homelessness.

Likewise, operational subsidies in FDC may need to be considered separately from operational subsidies in other service types. Operational subsidies in FDC pay for the co-ordinating unit. Asking parents to meet the full cost of running the co-ordinating unit out of fees could result in a decision to switch to informal care. While informal care will always be an important component of the total national child care picture, its standard is unmeasurable and uncontrollable, and at times gives Welfare authorities serious cause for concern. Australia's supervised and supported FDC system is the envy of many other countries around the world.

Thus a move to make all service types identical in terms of funding could be inappropriate. What is needed in a coherent program is funding that is derived from a careful consideration of the overall needs of a service, rather than simply reflecting a 'rich relation/poor-relation' status.

PART V: TAX ISSUES

Proposals to make child care costs tax deductible have surfaced periodically throughout the history of the SFCP. Governments of all parties have resisted moving in this direction, among other reasons, because of the difficulty of limiting the cost of any tax measure related to the deductibility principle. Especially while the SFCP was a tiny, circumscribed program, this was a particularly important consideration. Dr Blewett (1989) gave the following additional reasons for not introducing tax measures for child care expenses:

- they are unlikely to increase the supply of places;
- tax measures do not directly relate the cost of care with ability to pay in the way fee relief does that is low income families are unlikely to get sufficient help to be able to afford care;
- tax measures are regressive and unfair; high income earners benefit more than low income earners;
- they are likely to have an inflationary effect on fees;
- they are open to abuse that is unpaid child care may be presented as if a fee has been paid;
- there would be no guarantee of services for high needs groups (loss of targeting through needs based planning);
- there would be major disruptions if the present system was wholly or partially replaced by a tax option.

Tax measures based around income tax can take the form of straight tax deductibility, in which child care expenses are deducted from income before tax is paid, tax rebates, in which tax liability is reduced by a set amount for child care costs, provided tax liability exceeds the value of the rebate or tax credits, which are like rebates but the balance of the value of the tax credit is paid in cash to low income earners whose tax liability does not reach the level of the credit.

Alternatively, tax measures can apply to business taxes through the vehicle of the fringe benefits tax. Employees who have child care fees included as part of a salary

package can effectively pay for child care with non-taxed income. Employers have to pay fringe benefits tax for child care provided as part of a salary package unless the child care centre is located on the business premises. Businesses can 'buy' a priority of access place for an employee in a child care centre without paying FBT, but any contribution towards the child's fees would attract FBT (Department of Community Services & Health & Australian Taxation Office, 1991).

Options for obtaining tax free child care as part of 'salary packages' for workers covered by industrial awards remain unclear. A recent attempt by the NSW Water Board to register pre-tax payment of child care fees into the award brought a decision from the Taxation Office that such an arrangement could not be dealt with under the Fringe Benefits clause of the Tax Act, and income tax would have to be paid on the child care fees. A 'salary sacrifice' would have to involve lowering the award rate at the instigation of the employer. The ACTU has stated that this is not acceptable to the union movement. It considers that this would amount to 'de-facto' tax deductibility of child care fees, which it opposes. The NSW Labor Council, on the other hand, currently supports the extension of salary package benefits to award wage earners. Meanwhile, the position of many corporations exploring providing child care and other family-related options has been confused by the controversy (Neales, 1992).

Much pressure has been renewed to allow child care fees as a deduction from income before paying income tax. Advocates mostly recommend that full tax deductibility or alternatively a tax rebate for child care costs be introduced on top of existing Government funding for child care.

Many of the arguments against tax measures relate to their effects if they were substituted for the present system of funding child care. The Liberal Party promised to introduce a tax rebate for child care in the 1990 election. Their position shifted during the campaign (Metherell, 1989) but they ended by promising to maintain the existing SFCP, then costing $250 million, as well as introduce a system of rebates at an estimated additional cost of $820 million (Liberal Party, 1989). Many viewed the policy as a staged method of introducing full tax deductibility for child care (Hopkinson, 1991). Last year the Taxation Institute of Australia published a detailed submission arguing for tax deductibility of child care. This submission, too, urged that the tax concession be added to existing funding arrangements. Child care groups have cautioned that once such massive expenditure through taxation was introduced, the integrity of the SFCP would realistically be difficult to defend, while its continued expansion would be very unlikely.

The complex of issues surrounding tax and work-based child care is harder. The ACTU has called for all individual tax concessions to be withdrawn. The ACTU has a policy position opposed to tax deductibility for income tax. If any worker can negotiate to have child care fees paid by their employer in exchange for a salary reduction before tax, this is in effect tax deductibility of child care. Certainly at

present the system appears to be weighted in favour of top earning corporate employees, and against wage earners covered by industrial awards.

Capital and operational contributions by companies to work-based child care centres are income tax deductible as business expenses. Similar deductions apply to commercial child care operations. When commercial child care is part of a larger business, significant negative gearing options are available. Community child care centres are exempt from income tax. Some community child care services have also had sales tax exemption, but these exemptions have not been common and are now under review.

The entire system of concessions developed for work-based child care need to be examined carefully in the context of decisions taken in relation to other parts of the SFCP.

PART VI - REFORMING THE SERVICES FOR FAMILIES WITH CHILDREN PROGRAM (SFCP)

Our system of child care is too important to radically reform without due care. It is our view that the community is in no position yet to offer informed advice on any of the five 'funding packages' or variations on them, offered in the Government's issues paper. It would be very foolish to try to pick one over another without a great deal more knowledge.

We do not yet know what the impact of the recent and proposed changes will be. Specifically, the expansion of the SFCP to include commercial centres is much too recent to have been properly evaluated. Data collected in the Department's census will indicate the extent to which the new services are responding to Government priorities, but this information is not yet publicly available. Child care awards are in the process of being restructured, with major impacts on cost structures still to be felt. Moves to develop nationally consistent standards are underway but are not yet realised. An Interim Accreditation Council is meeting, but many uncertainties lie ahead for the development of an acceptable National Accreditation System. There remain a number of uncertainties surrounding State/Commonwealth responsibilities for children's services, including a review of planning processes. Given all of this, major changes to funding at this juncture are inappropriate.

Crucially, what is absent from the Government's issues paper is a clear statement of philosophy and ultimate goals for the SFCP. We also need to understand what strategies the Government intends to adopt to achieve these goals. Without this, there is little means of judging which options are more or less likely to help realise these goals in the short, medium and longer term.

We believe that in the long term, the following principles should govern the Commonwealth Services for Families with Children Program:

- The Commonwealth, in developing policies for the SFCP, should take into account State/Territory programs covering this area so as to ensure the provision of services to meet the needs of all families with young children.

- These policies should be framed within a commitment to social justice, including access and equity for all children.

- The SFCP should be based on services with public accountability and parental participation.

- Commonwealth Government should retain a direct responsibility for quality, and in addition, provide the necessary financial support for the ongoing operations of an effective National Accreditation System for all of the child care services covered by the SFCP.

- Services in the SFCP should have a common approach to staff wages and conditions which embody the principles of wage justice for workers.

- There should be national consistency of regulations to provide acceptable minimum standards for all Australian children in child care.

We believe that the community needs to be involved in helping to solve the issues highlighted in the Government's Issues Paper, but argue that the process being offered does not permit genuine community input.

To be effective, what is required is a process of public enquiry similar to that used by the Resource Assessment Commission in developing its advice to Government. Such a process seeks on the one hand to establish and clarify the facts and on the other "through a completely open process .....to discover the values and opinions that people hold so that those values and opinions can be taken into account in the evaluation of the various policy options.....We tried to implement everything that we could to make us accessible" (Justice Donald Stewart, Chairman, Resource Assessment Commission, "Ochams Razor " ABC 8 March 92).

The traditional public enquiry process is generally carried out by an independent body such as a Commission or a committee. The process provides for submissions, an issues paper, public hearings, a draft report, further submissions and then a final report to Government and it includes the possibility of undertaking research and/or seeking out expert advice. It should be open, visible and participatory and use strategies to ensure the broadest range of views and advice on key issues. Such a process, whilst not guaranteeing an outcome acceptable to all interests, does ensure that policy is not

developed in a vacuum untouched by the interests and concerns of those directly affected.

PART VII

AECA, NACBCS & NFDCCA AGREE ON THE WAY FORWARD

The National Family Day Care Council of Australia (NFDDCA) has not been involved in an in-depth way in the preparation of this paper and so cannot endorse it in full, but would like to indicate its support with AECA and NACCBS for the following position:

We recommend that the Government take immediate action to make child care more affordable by increasing the fee relief ceiling, that this be done without compromising the operational subsidy and that the establishment of a benchmark of the real costs of services be a priority.

We recommend also that the best way forward is that for the time being the present funding arrangements remain in place and that the Government, as a matter of urgency, develop through a public enquiry process a framework for the planning and provision of child care into the 21st century and report publicly to the Minister by not later than 31 December 1992, and that the National Children's Services Advisory Committee play a major role in this enquiry.

In carrying out its task the Committee should include, but not be limited to, consideration of the following issues:

- the values and principles upon which such a framework is based;
- the role of government in the provision of child care services;
- the impact on other service types, state and national, of the extension of fee relief to the commercial services;
- the cost advantages of taxation arrangements for the commercial sector;
- the extent of non-work related care provided across services;
- the development of a benchmark for the real cost of services, including voluntary work, for comparison with present gap fees;
- the impact of different awards and State regulations across the services;
- the access to NESB and special needs programs across the services.

There can be no doubt that child care is at the cross- roads. The review has highlighted the crucial issues and dilemmas within the current child care program which need to be resolved. Now is not the time to paper over, yet again, with pragmatic policies the problems that are arising because the program lacks the coherence which comes from clear goals based on shared and articulated values and principles. It is time now to make those values and principals clear. The review was an important first step. It is now time to complete the task

REFERENCES

ACTU (1989) Submissions to the ACT and NT Child Care Award Anomalies Conference, Industrial Relations Commission: Canberra.

Alston, R (1990) Community Services & Health Amendment Bill Debate, Hansard, 17 October.

Alston, R (1991) Government headed for another major child care disaster, News Release, 18 December.

Angwin, M (1989) Response to the background paper. AECA/CAPFA Research Conference: Funding Options for Child Care and their Relation to Social Justice and Quality Issues. Melbourne, 11-12 December.

Australian Bureau of Statistics, Australia's Children 1989: a Statistical Profile. Cat No 4119.0.

Australian Early Childhood Association (undated) Commonwealth Funding of long day, centre-based child care: results of a national survey. Unpublished report.

Australian Early Childhood Association (1990) KPMG Peat Marwick admit errors, Australian Early Childhood Newsletter, December, 1-2.

Blewett, N (1988) Speech given to ALP Centre-Left Conference, Child Care: Social and Economic Implications, 7 May.

Blewett, N (1989) Speech given at the AECA/CAPFA Research Conference: Funding Options for Child Care and their Relation to Social Justice and Quality Issues. Melbourne, 11-12 December.

Breedlove, C & Schweinhart, L (1982) The Cost-effectiveness of High Quality Early Childhood Programs: A Report for the 1982 Southern Governors' Conference, Hilton Head Island, S Carolina. Ypsilanti: High/Scope Press.

Brennan, D & O'Donnell, C (1986) Caring for Australia's Children. Allen & Unwin: Sydney.

Bryson, L (1990) Equality, Parenting and Policy Making. Paper presented at the Conference, Ensuring Our Future, Adelaide, 15 - 17 May.

Child Care Employee Project (1989) The National Child Care Staffing Study: Who Cares? Child Care Teachers and the Quality of Care in America. Oakland, CA.

Commonwealth Government (1981) Review of the Children's Services Program. Unpublished committee report (the Spender report).

Commonwealth Schools Commission (1984) Funding Policies for Australian Schools, Canberra.

Department of Community Services (undated) Child Care Subsidy Arrangements: Index to Questions and Answers (explaining the changes following amendment of the Child Care Act in 1985).
Department of Community Services and Health (1990) Annual Report 1989/90.

Department of Community Services & Health (undated) Manual: Occasional Child Care. Commonwealth of Australia: Canberra.

Department of Community Services & Health & the Australian Taxation Office (1991) Tax Concessions for Employer Sponsored Child Care, AGPS: Canberra.

Department of Health, Housing & Community Services (1991) Annual Report 1990-91. AGPS: Canberra.

Department of Health, Housing & Community Services (1992) Commonwealth Child Care Fee Relief & Operational Subsidies: an Issues Paper. Commonwealth of Australia: Canberra.

Department of Social Security, Department of Finance, Department of the Prime Minister and Cabinet (1983) Children's Services Program Review into Income Related Assistance: Report of the Interdepartmental Committee.

Editorial, Financial Review, 21 July 1988.

Editorial, Sydney Morning Herald, 21 July 1988.

Gifford, J (1989a) What is child care for? A necessary first question in the funding options debate. Response paper presented at the AECA/CAPFA Research Conference: Funding Options for Child Care and their Relation to Social Justice and Quality Issues. Melbourne, 11-12 December.

Gifford, J (1989b) Child care in perspective. Exhibit P14, A no. 349 of 1988, Child Care Anomaly Claim. Industrial Relations Commission: Canberra.

Gifford, J (1992) Child Care Funding Re-Assessed: Operational Subsidies, Fee Relief and Taxation Issues. Discussion Package: Background Paper and Discussion Paper. AECA & NACBCS: Canberra.

Grimes, D (1986) Transcript on Senator Don Grimes on John Laws on 2GB, Friday 7 March 1986.

Hopkinson, M (1991) Child care and the tax law, Age, 6 May.

House of Representatives Standing Committee on Legal and Constitutional Affairs (1991) Women and Employment: A Discussion Paper. Prepared for the Inquiry into Equal Opportunity and Equal Status for Australian Women.

Huntsman, L (1989) A Guide to Regulations Government Children's Services in Australia: Centre-based Care for Preschool Age Children, Community Child Care: Surry Hills.

Industrial Relations Commission (1990) Decision: Award Restructuring of the Child Care Industry (Australian Capital Territory) Award 1986 and the Child Care Industry (Northern Territory) Award 1986: Sydney 14 September (The Full Bench Decision of the Child Care Award Test Case).

Jones, A (1983) Selectivity in Children's Services Policy. SWRC Reports and Proceedings No 32. Social Welfare Research Centre, University of NSW: Kensington.

Laing, R (1990) Matter A 349 - Anomalies and Inequities Claims - Child Care Industry (Australian Capital Territory) Award 1985 and Child Care Industry (Northern Territory) Award 1986: Enquiry and Report (The Laing Report of the Child Care Test Case Inquiry).

Liberal Party (1989) Economic Action Plan, October.

Metherell, M (1989) Opposition red faced over second blunder, Age, 26 October.

Ministerial Advisory Council to the Family and Children's Services Agency (1981) Out of School Hours Care in NSW.

Moss, P (1991) Day care for young children in the United Kingdom. In E Melhuish and P Moss (Eds) Day Care for Young Children: International Perspectives, Routledge: London, 121-141.

Murray, S (1986) Quality of Long Day Care in Australia: Report to the Minister for Community Services.

National Association of Community Based Children's Services (1983) Report: National Consultation on a Fee Relief System for Commonwealth Subsidised Children's Services. Report prepared for the Minister for Social Security, Senator D Grimes.

Neales, S (1992) Unionists at odds over child-care salary cuts, Financial Review, 21 January.

National Child Care Staffing Study (1989) Who Cares: Child Care Teachers and the Quality of Care in America. Child Care Employee Project: Oakland, California.

Office of Child Care (1981) Children's Services Program, unpublished report prepared for the Minister for Social Security.
Office of Child Care (1986) Commonwealth Government: Priorities and Future Funding of Occasional Care, unpublished paper.

Ontario Ministry of Community and Social Services (1992) Setting the Stage: Child Care Reform in Ontario. A Public Consultation Paper. Queen's Printer for Ontario: Toronto.

Phillips, D (1987) Quality in Child Care: What Does Research Tell Us? Research Monographs of the National Association for the Education of Young Children. Washington DC: NAEYC.

Pusey, M (1991) Economic Rationalism in Canberra: A Nation-building State Changes it Mind. Cambridge University Press: Cambridge.

Social Welfare Policy Secretariat (1984) Draft Report to the Minister for Social Security: Commonwealth Assistance for Children's Services - Proposals for a Reformed Basis for Funding, unpublished paper.

Staples, P (1991a) Speech delivered to the inaugural meeting of the National Children's Services Advisory Council, Canberra.

Staples, P (1991b) The possibilities for reform - a child care strategy for the nineties. Speech delivered to the 19th AECA Triennial Conference, Adelaide, 28 September - 2 October.

Stewart, Justice Donald (1992) Speech delivered on the ABC Radio Program, Ockham's Razor 8 March.

Sweeney, T & Jamrozik, A (1984) Perspectives in Child Care: Experience of Parents and Service Providers. SWRC Reports and Proceedings No 44. Social Welfare Research Centre, University of NSW: Kensington.

Taxation Institute of Australia (1991) Taxation and Child Care: A Submission to the Commonwealth Government Proposing Changes to the Tax Treatment of Child Care Expenses.

Toohey, B (1992) The looming split on the Right, Modern Times, March 1992, 10-12.

Walsh, P (1990) Cassandra, Financial Review, 12 June.

Walsh, P (1991) Cassandra, Financial Review, 29 October.

ATTACHMENT 1

OPERATIONAL SUBSIDIES

Centre-based long day care

1972 - 1985
The operational subsidy was 75% of salaries of approved qualified staff, based on attendance on a nominated 'representative' day, counting equivalent full time children (EFTs) according to the following formula:

1 nurse per 20 children over 3 years
1 teacher per 15 children over 3
1 nurse per 10 children under 3 years

Average fees in 1982 were $45 per week with this subsidy (Sweeney & Jamrozik, 1984).

November 1985 - Child Care Act amended: funding switched to a per capita basis, paying one rate for children over 3 years and a higher rate for children under 3, based on approved places and utilisation rates, effectively halving the subsidy in average centres. Average fees of $55 were expected to increase by $15 per week following the change.

	Under 3	Over 3	Avg fees
	$	$	$
1986	16.00	11.00	70 - 85
Jan 1987	17.20	11.80	
Oct 1987	18.20	12.20	
Oct 1989	19.60	13.00	79
Oct 1990	20.70	13.90	120
Jan 1992	21.02	14.11	125 -130

Family Day Care

Operational subsidies were initially paid on the basis of attendance on a nominated representative day each quarter, up to an approved limit. Rates were per equivalent full-time (EFT) child per week.

	EFT
	$
1977 - 1982	7.00
1983	10.00

1984 - A part-time loading was introduced, calculated from the difference between the total EFT on a representative day and the total number of children counted on the representative day, in partial recognition of the equal burden on the administrative unit of full-time and part-time children.

	EFT	PT
	$	$
Jul 1984	12.00	3.00
Jan 1987	13.00	3.00
1989	14.00	4.00
1990	15.90	4.50
Jan 1992	16.15	4.60

Outside School Hours Care

1975-76
Funding was based on an adult/child ratio of 1/40, with the salary rate $3.50 per hour.

1976-1980
A funding formula of $35 x Avg no of children attending x total daily hours of operation = optimum annual entitlement appears to have applied, but often not to have been used (Ministerial Advisory Council to the NSW Family and Children's Services Agency, 1981). Much funding was discretionary.

In September 1980 a new formula was approved, increasing overall expenditure by 17.1% and advantaging 53% of existing services (Office of Child Care, 1981). Programs which were disadvantaged were initially allowed to continue under the old funding arrangement.

	30 place service	45 place service
Oct 1980	$7.50 per hr	$11.25 per hr
Nov 1983	$8.63 per hr	$12.94 per hr
Oct 1984	$11.25 per hr	$16.13 per hr
Oct 1986	$12.50 per hr	$18.00 per hr

Funding later switched to a per child basis, with one rate applying per approved place per hour for the first 30 places, and a lower rate applying per approved place per hour in excess of 30 places

	First 30 places	Over 30 places
1988	48 cents per hr	42 cents per hr
1990	49 cents per hr	43 cents per hr
1992	52 cents per hr	45 cents per hr

A proposed change to operational subsidies announced in the 1991/92 budget has been deferred until April 1992. Under the proposal, operational subsidies in OSHC would be lowered to match those in centre-based long day care.

Occasional Care

New funding arrangements for occasional care were announced in 1986. At the time of the announcement there were approximately 100 individual services receiving ad hoc funding under the SFCP in the absence of a uniform funding formula. A discussion paper issued in September the same year setting out proposed guidelines suggested 40 cents per licensed place per hour or $16 per 40 hr place per week. The OCC manual (undated) gives $42.5 cents per approved place per hour or $17 per 40 hr place per week. On 1 January, 1992 subsidies rose from $19.30 to $19.60 per 40 hr place per week.

The two-tiered fee relief system proposed in the 1991/92 budget would have encouraged OCC centres to extend their hours, become LDC centres and charge differential fees according to work or non-work related usage.

FEE RELIEF

Centre-based Long Day Care

1972 - 1982
Fee relief was offered according to the discretion of the centre. Centre's attracted a special need subsidy of 25 cents per hour for children over 3 and 40 cents per hour for children under 3 on the basis of actual hours of attendance throughout the quarter by specific categories of children: children of sole parents, newly arrived immigrants, or sick or incapacitated parents. (An income related category was tied to an inoperative health Act, and never implemented). Some centres automatically reduced fees of children attracting the subsidy. Others used the fee relief subsidy as a pool of funds with which to reduce fees of low income families. Most centres engaged in 'cross-subsidisation'--reducing fees for some families by more than the fee relief subsidy by charging other parents more. The subsidy rates seem to have been adjusted once in 1975. No information was found regarding the original rate.

Jan 1983
SENS subsidies for income-related fee reductions were introduced. Centres were allocated a fee relief 'pool', based on 25 cents per hour per attendance of all children on the representative day. This amount represented the centre's Assessed Upper Limit (AUL). Each centre had to construct its own sliding scale of fees, based on an approved budget, and fixed thresholds of Assessed Family Income (AFIs). Centre-constructed withdrawal rates and methods of deriving AFIs were approved, provided the centre
could demonstrate, through, estimates that the quarterly AUL would not be exceeded. It was suggested that AFI include $100 weekly deduction for housing, and $30 per child.

		Thresholds		
	minimum fee	minimum AFI	maximum AFI	withdrawal rate
Jan 1983	$10	$65	$250	various

March 1983
A change of government prompted a review of the new SENS. National consultations were held, and a new system was introduced in July 1984. For a brief time the $10 minimum was dropped to $0 but was re-introduced in July.

In July 1984, the current standardised system was adopted for LDC and FDC. AFIs were calculated on the basis of gross weekly income less $30 for each dependent

child. The sliding scale initially gave greater assistance to low to moderate income families, with an increased withdrawal rate applying to families ab9ove AFI $467.

	minimum fee	Thresholds minimum AFI	maximum AFI*	w'd'l rate	ceiling
July 1984	$10.00	$225	$467	.15	
			$489	.30	none
Apr 1986	$12.00	$225	$680	.15	$80.00
Jul 1987	$13.00	$225	$678	.17	$90.00
Oct 1989	$14.00	$250	$710	.17	$92.50
Oct 1990	$15.00	$369	$1060	.12	$100.00
Jan 1992	$15.50	$381	$1140	.12	$103.00

*cut-off for fees of $55 (no fee relief ceiling), then cut-off at the fee-relief ceiling.

Jan 1991 - Fee relief introduced to commercial centres, based on percentage of fees payable on an hourly fee.

Family Day Care

A system similar to SENS operated within FDC until 1983 when FDC and LDC systems were aligned. No documentation of the details of the system has been found. From memory, the subsidy pool was derived from an Assessed Upper Limit per scheme. The sliding scale of fees had to be approved, but no other restrictions applied.

A ceiling on fee relief of $65 was introduced in 1986. In 1990 this was extended to $100 to match LDC.

Outside School Hours Care

1975 - 1990
Funded schemes were expected to provide a fee relief system from their operating budgets. No specific funds were provided as fee relief subsidies.

The 1989/90 budget provided for a fee relief subsidy for OSHC, dependent on State/Commonwealth cost sharing agreements, but by April 1990 only South Australia and Tasmania had reached agreement with the Commonwealth on a formula (DCSH, 1990). During the election campaign the Government promised to introduce its own

system from July 1990. Two levels of fee relief were provided, tied to pension levels (full subsidy) and Family Allowance Supplement (partial subsidy).

	full subsidy	partial subsidy
July 1990	61 cents/hr	31 cents/hr
Jan 1991	64 cents/hr	32 cents/hr

Occasional Care

Occasional care guidelines introduced in 1986 provided for a single level of fee relief for families in receipt of pensions, benefits or Family Income Supplement. These families were entitled to a 50% reduction of fees. This system has not altered since it was introduced.

SUMMARY

OF

CHILD CARE FUNDING RE-ASSESSED:

OPERATIONAL SUBSIDIES, FEE RELIEF AND TAXATION ISSUES

by

Pam Cahir

A COLLABORATIVE PROJECT BETWEEN
THE AUSTRALIAN EARLY CHILDHOOD ASSOCIATION
and
THE NATIONAL ASSOCIATION
OF COMMUNITY BASED CHILDREN'S SERVICES

MARCH 1992

PURPOSE

This paper is summary of a paper which is the result of a collaborative effort by the Australian Early Childhood Association (AECA) and the National Association of Community Based Children's Services (NACBCS).

The purpose of the full paper "Child Care Funding Re-Assessed: Operational Subsidies, Fee Relief and Taxation Measures", prepared by Jean Gifford, is to assist the child care industry to identify and analyse the critical issues raised by this current review and respond appropriately. The paper provides an analysis of the development of the program and discusses the shift in its focus from the needs of families and children to a program which is an adjunct of the Government's labour market policy. The paper details the agreement about the way forward which has been reached between AECA, NACBCS and the National Family Day Care Council of Australia(NFDCCA) The full paper separates out, where necessary, the implications of what is being proposed for the different service types. It has not been possible to do that in this summary.

It is important that the industry responds to the Government's issues paper and makes its voice heard. There may not be another chance.

BACKGROUND

Key Issues

The issues of supply, affordability, quality and suitability which are facing the child care industry in this country are also being faced in other parts of the world. Other countries are seeking to put in place systems based on the same principles of operational subsidies and fee relief that we are in danger of dismantling.

Unmet Demand

Although child care is now recognised as a mainstream policy issue which underwrites many of the Government's social and economic objectives, the supply of affordable quality child care does not meet demand.

Government Approach

The focus of the Government's approach to child care has been progressively narrowed from one originally designed to meet the needs of families and children generally to one focused on supporting the labour market objectives

of the Government. The proposal for a two tiered fee relief system announced as part of the 1991/92 budget was the clearest evidence yet of this change.

Operational Subsidy Under Threat

The Operational Subsidy has been under threat many times before. In the absence of a clear policy purpose for the operational subsidy there is now real pressure to use it to improve fee relief arrangements.

Fee Relief to Commercials

The extension of fee relief to the commercial sector has proved to be an uncontrolled opened ended budget commitment which means that the child care budget is uncapped. This is not a tenable position for Government in a climate of fiscal constraint.

Narrow Economic Measures

The strength within both Government and the bureaucracy of those who view all government programs only on the grounds of economic usefulness, and primarily use simple cost effectiveness measures such as cost per child as the indicators of the effectiveness of government programs, is a major pressure for change. Alongside this and arising from the same ideological base is coming serious argument to make child care tax deductible.

BRIEF OVERVIEW OF OPERATIONAL AND FEE RELIEF SUBSIDIES

Salary Subsidies

Under the original Child Care Act, which covered only centre based long day care, the major vehicle for the government's contribution was the operational subsidy, which was linked to staff salaries at award rates. It underwrote the employment of qualified staff and therefore quality. Its link to staff ensured that the subsidy benefitted all children. This was changed to in 1985, when the subsidy was paid on a per child basis thus breaking the nexus with salaries.

57

Special Needs Subsidy

Fee relief was originally available through a special needs subsidy. Sometimes although not always it was used to subsidise the fees of low income families using the service, but more generally its intention was to contribute to the additional cost of caring for children with special needs irrespective of family income.

Operational Subsidies and Fee Relief

When the Child Care Act was eventually amended in 1985, the balance of support in the program was shifted from the salary subsidies to a needs based approach through a system of fee relief based on family income. Operational subsidies, were introduced and special needs were paid on a per child rather than staff cost basis. The motivation was in part to reduce the cost of the program and the effect was that services had to either increase fees or cut back on quality.

This was the real beginning of the "gap fee", the open tension in government policy between access and affordability and quality, and the move by government away from a commitment within this program to the needs of children and their families.

The operational subsidy has survived but it has been under continuing pressure since those changes to the Child Care Act in 1985. In short, it remains a general subsidy at a time when government resources are being increasingly targeted. This is reflected in the shift of the program away from the needs of children and families to a focus on labour market objectives.

Fee relief to the Commercial Sector - A New Pressure

At the same time as the struggle to retain the operational subsidy was being waged, another more fundamental challenge to the continuation of the Services for Families with Children Program (SFCP), formerly the Children's Services Program (CSP), was being mounted. This was the claim from the commercial sector for access to the subsidies available through the program. This claim was supported by the union movement.

This was won in 1990 when the Child Care Act was again amended to provide fee relief to the commercial sector. At that time the operational subsidy was left untouched, presumably because of the political risk of making two such fundamental changes at the one time.

The effect of that policy decision is a budget which is uncapped and as a result more and more pressure on the funding of other areas of the program.

A NEW CHALLENGE TO CHILD CARE FUNDING

The Challenge to the Industry

At the 1991 AECA National Conference, the current Minister for Aged, Family and Health Services, Peter Staples, challenged the industry to define the policy role of the operational subsidy, saying that a balance had to be struck between affordability and quality and that in the current climate it was not possible simply to call for more funds.

The Foreword to the Government's Issues Paper "Commonwealth Child Care Fee Relief & Operational Subsidies", released in February 1992, suggests that this is no longer an open question. The outcomes of the Review seem to be pre-empted in the Foreword to the paper which talks of removing anomalies between sectors and service types and of the need to target operational subsidies. The "level playing field" is squarely on the agenda.

Why Governments Like to Target Funds

There has been an increasing emphasis in Government policy on the effective targeting of Government resources. This is a consequence not only of the very tight fiscal climate but also of the managerialism currently so evident in government.
As policy instruments, means tested, targeted approaches to funding have a number of attractions for governments. They give significant control over the level of the government's contribution because eligibility can be adjusted up or down by altering the income ceiling and/or the criteria, other than income, which define the target group. As well as this, the level of the individual subsidy can also be varied. The political rhetoric which promotes the direction of limited resources to the most needy is hard to counter. The deserving and undeserving poor are identified quite clearly by such instruments. Means tested targeting can be a very pragmatic policy instrument.

The operational subsidy, on the other hand, has underwritten the quality of child care provision for all children within the CSP. It has a universalist rather than targeted orientation. Subsidies of this kind are an acknowledgement that quality cannot be fully addresses through subsidies directed to particular purposes.

THE PURPOSE OF THE OPERATIONAL SUBSIDY or THE LEVEL PLAYING FIELD REDEFINED

The Operational Subsidy and Quality

At the heart of this review is the claim that it is unfair or inequitable to differentiate in funding terms between community based non profit services and commercial services. It is a claim which asserts that market forces will protect quality and ensure the provision of the level of service for which the market is prepared to pay, and that the profit motive will ensure that the cost per child is kept to the minimum necessary to provide the service. Cost per child, not quality of care, becomes the sole measure of effectiveness because it is that which bears most strongly on profitability. The reality is that improvements which drive up costs are resisted.

This argument loses its force when it is realised that the commercial sector would actually be at a significant advantage if the operational subsidy was withdrawn from the community sector. The level playing field actually operates the other way.

It is normal business practice to underwrite the quality of an enterprise from profit generated reserves. This is seen as a legitimate and necessary investment for future improvement in profit levels. Only the commercial sector is in the position to generate profits. The community sector operates on a break even basis and so in the absence of an operational subsidy only the commercial operators would be in a position to invest in those aspects of a service which improve quality. The efficacy of this argument is verified by the fact that the corporate sector invests the equivalent of an operational subsidy in their services so that a quality service can be provided at a price users can pay. The Department of Defence and CSIRO offer similar subsidies.

The corollary of this is that in the absence of an operational subsidy for the community based sector there is no external pressure on the commercial sector to invest in quality and so match the quality of service provided in the non profit community sector. This role for the non-profit community based sector has been regularly acknowledged by government. The argument that the community sector has driven up the quality of child care provision overall and that consequently quality would be undermined in the absence of an operational subsidy has its roots in this analysis.

The counter to this view is that it would be possible to withdraw the operational subsidy from the non-profit community based services and encourage them to operate in ways which would enable them to generate a

surplus. That is, either increase the cost or decrease the quality of service. Either outcome is unacceptable.

Equally importantly such a response makes it abundantly clear that what is potentially at stake in this review is a continued role for government in the direct provision of child care services.

The Continued Operation of Services and Operational Subsidies

Motivation is a crucial factor in the decision to operate child care services. For the commercial sector this motivation is profit, for the corporate sector it is the increased productivity of employees and for the non-profit community based sector it must be the provision of a needed service. Without the operational subsidy it is hard to see why community organisations would want to run or continue to run child care services. Once a service begins to make inroads into the finances of a sponsoring organisation its continuation cannot be guaranteed because it must compete with other organisation priorities for very limited resources.

For parent managed services the incentive to continue in the face of a withdrawal of the operational subsidy is dramatically undermined.

The Community Based Sector is Wasteful!

Another aspect of the level playing field or market forces argument is the proposition that the non-profit community based sector wastes money and that therefore the operational subsidy is unnecessary. There is no evidence to support this claim, on the contrary what evidence there is suggests that the higher costs in the community based sector are related to the quality of the service.

The Role of Government in the Provision of Child Care

The crucial, though not yet explicit, issue in the current review of child care is the role that should be played by government in the provision of child care services. Should market forces alone determine the nature and quality of child care provision, and is the supermarket mentality "you get what you can or are prepared to pay for" an acceptable approach to the care of the nation's children an appropriate basis for child care policy? AECA and NACBCS think not.

The market forces argument implies that there is no necessary role for Government in the provision of child care services. It implies also that child

care is simply an adjunct to other economic and social policies, that it is the provision of care rather than the care of children which is the exclusive focus of child care policies and that this is done more appropriately by private operators.

The alternative proposition is that child care is an essential community service in the same way as schools and hospitals and that its availability and quality is too important to be left to vagaries of the market. It would suggest that an interventionist role for government is appropriate because the care of children has implications for the society as a whole.

The operational subsidy gives the government purchase on the quality, location, management and provision of a range of services. It is therefore essential to an integrated and planned approach to child care. An important and often unacknowledged outcome of this is that child care services are a part of a community infrastructure of support which underwrites many other community and welfare services. This need to plan for the development of communities is well understood by urban and social planners and is crucial to the health of urban cities.

Will the Accreditation System Ensure Quality?

The rhetoric around quality remains with the Government's commitment to establish a national system for the accreditation of child care services which will be linked in some way to fee relief. As yet however there is no indication of how this will be funded except for a requirement that the Interim Accreditation Council examine the extent to which users of the service can pay.

The potential exists, in the current climate, for the Government to justify a withdrawal from the direct commitment to quality which the operational subsidy represents on the basis that it has established an industry based accreditation system to take on this role. In the absence of an operational subsidy, such a decision would be entirely cynical. Our analysis of the role of the operational subsidy in underwriting quality suggests that in its absence community based services would be unable to deliver quality services except at significantly increased cost to parents in the form of additional fees.

Either way, it would be premature to withdraw from a direct financial commitment to quality, which the operational subsidy represents, before nationally consistent standards are in place and the new accreditation system is established, fully functioning and the independence and stability of its funding base known. Moreover, its impact on services needs to be evaluated before any firm conclusions can be drawn.

ALTERNATIVE USES FOR THE OPERATIONAL SUBSIDY

Using the Operational Subsidy to Target Special Needs

Recasting the operational subsidy as a subsidy to special needs groups is one of the alternatives that have been canvassed in the Government's issues paper. Incentive payments to centres offering places to under three's in long day care (LDC) and for rural and remote services have been identified, but there was no mention of the needs of children from non-English speaking backgrounds, or of children with disabilities whose needs may not always be best met through subsidies to individual services.

A responsible decision would be based on information about the level of subsidy that would be needed, whether the funds released by the withdrawal of the operational subsidy would be sufficient to do the task well, and some evidence that this is the best way to meet these needs.

A decision to target in this way in the absence of such information would be a continuation of the piecemeal approach to targeting special needs which has been characteristic of the program to date.

Using the Operational Subsidies to Enhance Fee Relief

The cost of child care, in particular the cost to low income families, is one of the critical issues facing the industry. The suggestion is that operational subsidies could be used to give special support to low income families. It is clear that these families need additional support, but to do so in this way would be to increase the inequities in the program.

What is needed is not another band-aid remedy which is essentially inequitable. The real issue is that as long as the fee relief ceiling fails to reflect the real cost of care, the issue of gap fees will remain for all users and the affordability question will be unresolved. Establishing such a benchmark would not be easy as the work in other areas demonstrates, but it can and should be done.

There is no question that it is urgent for some action to be taken to address the fee relief problems. However, our very strong position that the unintended consequences of using operational subsidies to do this would far outweigh the gains.

THE PURPOSE OF THE PROGRAM

Work Related Care and/or the Needs of Children and Their Families

There can be no argument that the program has been from its beginning an instrument of the labour market policies of governments. However, it has also had a significant history of giving priority to non-work related care for children who needed early childhood programs. Need included the need to mix with other children and to learn English. It has included also the need for child care by sole parent families and those where parents are incapacitated. Need was not linked to the income status of families but focused firmly on the needs of the children and families themselves.

The present Labor Government has withdrawn from this commitment. The proposal for a two tiered fee relief sytem further evidence of this. The SPFC is now firmly focused on the needs of adults. The needs of children are unmentioned. Children without English, or who are isolated, or from ethnic minorities, from sole parent families or with a disability now have access to the program only if their need for care fits into the priority categories.

The two tiered system whilst attempting to address the viability question of specific purpose Occasional Child Care (OCC) assumes that families using care for non-work related reasons are somehow able to pay more. This is not necessarily the case. The exemption mechanism for "at risk "children proposed in the new system has given rise to great concern as being too bureaucratic and insensitive. Such children are given no protected access to services if work-related need for child care is high.

A Unified but not Uniform Funding Approach

The need for a more standard approach to child care funding is agreed. This is not the same as a uniform approach as it may prove to be the case that different types of services need different levels of operational subsidy. What is needed is a coherent program based on consideration of the overall needs of a service.

Tax Deductibility as an Approach to the Funding of Child Care

In the past proposals to make child care tax deductible have been resisted. The concerns are that taxation measures, if substituted for the present scheme, are unlikely to increase the supply of places, do not enable a planned approach to service location and special needs, do not relate the level of support to the

ability to pay, are unlikely to provide the level of assistance needed to low income families and are likely to drive up the cost of child care. In short tax measures are inherently regressive and unfair. Taxation measures take the actual provision of child care out of the public policy arena and make it a private, rather than a public or community responsibility.

Current proposals being put forward suggest tax deductibility on top of the current fee relief system. This approach would provide some relief to high income earners who are at present receiving no support. This is a very costly proposal. It is difficult also to see how the two approaches could operate concurrently, with one based so heavily on a needs based planning approach and the other so aggressively individual.

The issues surrounding tax and work-based child care are more complex. The Australian Council of Trade Unions(ACTU) is opposed to individual tax concessions for a range of reasons, including their capacity to undermine awards and because the advantages they provide are greater for higher income earners.

As well as this there is a range of other issues or anomalies in the way taxation applies between corporate, commercial and community based services which need to be examined in the context of the overall funding of SFCP.

A BASIS FOR THE REFORM OF THE SFPC

Our system of child care is too important to radically reform without due care. It is our view that the community is in no position to offer informed advice on any of the five 'funding packages' or variations on them offered in the Government's issues paper. It would be very foolish to try to pick one over another without a great deal more knowledge.

We do not yet know what the impact of recent and proposed changes will be. Specifically, the expansion of the SFCP to include commercial centres is much too recent to have been properly evaluated. Data collected in the Department's census will indicate the extent to which the new services are responding to Government priorities, but this information is not yet publicly available. Child care awards are in the process of being restructured, with major impacts on cost structures still to be felt. Moves to develop nationally consistent standards are underway but are not yet realised. An Interim Accreditation Council is meeting, but many uncertainties lie ahead for the development of an acceptable National Accreditation System. There remain a number of uncertainties surrounding State/Commonwealth responsibilities for

children's services, including a review of planning processes. Given all of this, major changes at this juncture to the funding system changes are inappropriate.

Crucially, what is absent from the Government's issues paper is a clear statement of philosophy and ultimate goals for the SFCP. We also need to understand what strategies the Government intends to adopt to achieve these goals. Without this, there is little means of judging which options are more or less likely to help realise these goals in the short, medium and longer term.

We believe that in the long term, the following principles should govern the Commonwealth Services for Families with Children Program:

- The Commonwealth, in developing policies for the SFCP, should take into account State/Territory programs covering this area so as to ensure the provision of services to meet the needs of all families with young children.

- These policies should be framed within a commitment to social justice, including access and equity for all children.

- The SFCP should be based on services with public accountability and parental participation.

- Commonwealth Government should retain a direct responsibility for quality, and in addition, provide the necessary financial support for the ongoing operations of an effective National Accreditation System for all of the child care services covered by the SFCP.

- Services in the SFCP should have a common approach to staff wages and conditions which embody the principles of wage justice for workers.

- There should be national consistency of regulations to provide acceptable minimum standards for all Australian children in child care.

We believe that the community needs to be involved in resolving the issues highlighted in the Government's paper, but argue that the process being offered does not permit genuine community input.

To be effective, what is required is a process of public enquiry similar to that used by the Resource Assessment Commission in developing its advice to Government. Such a process seeks on the one hand to establish and clarify the facts and on the other "through a completely open process .....to discover the values and opinions that people hold so that those values and opinions can be

taken into account in the evaluation of the various policy options.....We tried to implement everything that we could to make us accessible" (Justice Donald Stewart, Chairman, Resource Assessment Commission, "Ockhams Razor " ABC 8 March 92).

The traditional public enquiry process is generally carried out by an independent body such as a Commission or a committee. The process provides for submissions, an issues paper, public hearings, a draft report, further submissions and then a final report to Government and it includes the possibility of undertaking research and/or seeking out expert advice. It should be open, visible and participatory and use strategies to ensure the broadest range of views and advice on key issues.

Such a process, whilst not guaranteeing an outcome acceptable to all interests does ensure that policy is not developed in a vacuum untouched by the interests and concerns of those directly affected.

AECA, NACBCS & NFDCCA AGREE ON THE WAY FORWARD

The National Family Day Care Council of Australia(NFDDCA) has not been involved in an in-depth way in the preparation of this paper and so cannot endorse it in full, but would like to indicate its support with AECA and NACCBS for the following position:

> We recommend that the Government take immediate action to make child care more affordable by increasing the fee relief ceiling, that this be done without compromising the operational subsidy and that the establishment of a benchmark of the real costs of services be a priority.
>
> We recommend also that the best way forward is that for the time being the present funding system remain in place and that the Government, as a matter of urgency, develop through a public enquiry process a framework for the planning and provision of child care into the 21st century, that the Enquiry report publicly to the Minister by not later than 31 December 1992 and that the National Children's Services Advisory Council play a major role in this enquiry.

In carrying out its task the Enquiry should include, but not be limited to, consideration of the following issues:

- the values and principles upon which such a framework is based;
- the role of government in the provision of child care services;
- the impact on other service types, state and national, of the extension of fee relief to the commercial services;
- the cost advantages of taxation arrangements for the commercial sector;
- the extent of non-work related care provided across services;
- the development of a benchmark for the real cost of services, including voluntary work, for comparison with present gap fees;
- the impact of different awards and State regulations across the services;
- the access to NESB and special needs programs across the services.

There can be no doubt that child care is at the crossroads. The review has highlighted the crucial issues and dilemmas within the current child care program which need to be resolved. Now is not the time to paper over, yet again, with pragmatic policies the problems that are arising because the program lacks the coherence which comes from clear goals based on shared and articulated values and principles. The review has been an important first step. It is time now to complete the task.